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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

VALUE ADDED TAX

COLLECTION AND CONTROL PROCEDURES

APPLIED IN MEMBER STATES

EXECUTIVE SUMMARY

1. The mandate. Community implications of VAT administrations' efficiency

Own resources accruing from VAT are, at the present level of expenditure, the major Community resource. The collection and control of VAT are under the responsibility of national administrations. Article 12 of Regulation No 1553/89 stipulates that the Commission produce every three years a report on collection and control procedures in Member States and discuss with them the potential improvements likely to enhance the effectiveness of these procedures.

This report reviews the main implications of VAT administration effectiveness for the Community, the salient features of MS VAT administrations and their environment, the main problems they face and the associated measures implemented or contemplated by MS. Following a brief assessment, the report puts forth a series of suggestions for improvement and a follow-up plan.

The reduction of divergences in Member States' effectiveness in collecting the tax and preventing fraud will enhance the collection of the Community own resources, and contribute to greater equity in the distribution of the financial burden of Community policies both within and across Member States.

2. VAT Administration in Member States

Divergences are first influenced by factors largely outside the reach of VAT administrations, like the differing characteristics of the taxpayer populations (e.g. number, size and sectoral distribution, attitudes towards the administration) and by the overall structure and resources of public (and particularly tax) administrations.

3. Collection and control problems

VAT is a tax on consumption collected by producers and traders, which become themselves taxpayers. Assessing the tax liability requires a considerable amount of information not readily, if at all, accessible to the administration. This is why Member States rely on self-assessment and pay increasing attention to ensuring voluntary compliance.

Voluntary compliance is influenced by the degree of complexity and stability of the VAT code, the information available to taxpayers, and their perception of the administration's equity and effectiveness in enforcing VAT legislation.

4. Member States measures to improve collection and control systems

Effective enforcement requires combined effectiveness in registration, assessment, collection, and control tasks. Member States have recently devised or contemplate a number of measures to improve both voluntary compliance and enforcement. Some have simplified VAT legislation, or compiled it into a single Code. Others have focused on taxpayer information on his rights and obligations. Still others have emphasized risk analysis and targetted auditing.

Computerisation has been a major objective for nearly all Member States, and has been applied primarily to registration and collection, although some Member States have gone further and computerised desk auditing and even audit visit activities to a very large extent. The human resources problem has been dealt with by some Member States by intensifying training, improving the career profiles and by adopting more flexible salary and career patterns.

Some administrations have also reorganized themselves and either merged different tax services or improved their coordination. Taxpayer registers, in some cases containing comprehensive information, have been created to efficiently handle taxpayers' relevant particulars. Collection procedures have sometimes been decentralized and audit activities selectively programmed and coordinated at the various levels.

5. Assessment and suggestions

The Commission notes that in all Member States trends emerge towards emphasizing voluntary compliance and systematically applying selective enforcement methods for non-complying taxpayers. These trends are accompanied by thorough computerisation, reorganisation and continued training. It detects however that further effort is required in order to implement these strategic decisions in a pervasive way .

Additional efforts also seem to be necessary, though to different degrees in the various Member States, in facilitating compliance through simplified legislation and procedures, improved cooperation with taxpayers via better information and service, and reinforced attention to taxpayers' rights.

The Commission also notes that some countries could gain from adopting comprehensive computerisation strategies rather than partial ones and a general inference emerges from the analysis as to the need to enhance staff training programmes to cope with the new technological, legislative, and commercial environment.

The report further suggests diversified audit programmes to balance the objectives of short-term efficiency and equity. This may require a combination of selective, risk-led searches, broader visit plans, and specialised units to check organised fraud. It also points out that potential benefits could accrue from increased flexibility and agility in arrears collection and control.

Suggestions are 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 coordination
between tax services within and across Member States

The report also recalls that the above suggestions are made even more relevant in view of the important changes required by the transitional VAT regime that will come into effect in January 1993.

Follow-up

The Commission intends to facilitate the exchange of information, and joint discussion amongst Member States and between Member States and the Commission so as to achieve the highest possible, equivalent, levels of effectiveness in the collection and control of VAT across the Community.

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1. INTRODUCTION: VAT ADMINISTRATION AND THE COMMUNITY

1.1. Community implications of VAT Administrations' effectiveness

Under the Community system of own resources⁽¹⁾, at the present level of Community expenditure, own resources accruing from the harmonised VAT base are the major Community receipt (55.6% of total Community own resources in 1992). Member States' (MS) VAT own resources payments are determined by applying the uniform rate valid for all MS to the VAT assessment base⁽²⁾ calculated according to the revenue method⁽³⁾. (Table 1.1.a)

Since VAT collection and control are the responsibilities of national administrations, the amount of VAT collected and of VAT own resources payments by each MS to the Community own resources⁽⁴⁾ (Table 1.1.b) depends on its achievements in collecting the potential receipts of this tax and in particular on its performance in curbing VAT evasion.

The new system of own resources laid down by Council Decision 88/376/EEC has established an additional own resource based on GNP which makes up for shortfalls in Community receipts from the other own resources in order to balance the Budget. As a consequence, overall Communities capacity to finance expenditure is in principle invariant to divergences in national administrations' effectiveness in collecting the tax and preventing fraud.

However, these divergences have implications for the Community finances. Firstly, inasmuch as tax evasion and underground economic activity are very much intertwined, not only VAT receipts but also GNP figures might be understated. Unless these figures are properly adjusted for in calculating MSs GNP contributions, overall Community resources will be reduced, or an additional burden will result for taxpayers in other MS. Secondly, by distorting the cost structure of firms in the various MS these divergences directly affect intra-Community competition. Thirdly, by redistributing the burden of taxation amongst taxpayers, they also interfere with equity both within and across MS.

(1) Council Decision 88/376/EEC of 24.6.1988 and Regulations Nos 1552/89 and 1553/89 of 29.5.89.

(2) VAT payments by each MS are capped at 55 per cent of GNP at market prices (Art. 10 § 4 of Regulation no. 1552/89).

(3) The revenue method consists of dividing the total net receipts collected by each MS by an estimated weighted average rate (Art. 6 of Regulation n° 2892/77 of 19.12.77 and Art. 3 of Regulation N° 1553/89). The revenue method is described in more detail in SEC(91) 1985.

(4) up to the reduction coming from the 55% cap referred to in footnote n° 2.

1.2. The implementation of Article 12 of Regulation 1553/89

The provisions enacted by Regulation 1553/89 and in particular those of its art. 12, serve the objectives of improving the effectiveness of the various national collection and control systems and thus reducing divergences among MS, ameliorating the system of own resources, and curbing fraud.

Article 12 stipulates that Member States must inform the Commission on their procedures governing taxpayers' registration, assessment and collection, and on the types and results of their control systems in this respect. The Commission must then assess, in collaboration with each MS, the potential improvements with a view to enhancing the effectiveness of these procedures,⁽⁵⁾ and submit a three-yearly report to the Council and Parliament.

In order to update the Commission's information on MS national VAT collection and control procedures, all MS have replied in detail to a Commission questionnaire, and openly provided further descriptions to the Commission's services during their visits to MS VAT administrations. The following assessment and suggestions build upon key information thus obtained. Furthermore, following MS agreement, extensive technical documentation collected by the Commission services on individual MS's systems has been made available to all other MS.

This report takes also account of the views expressed by MS at the ACOR meeting of 27.11.91 on the issues under consideration.

2. VAT AND ITS ADMINISTRATION IN MEMBER STATES

2.1. VAT in Member States finances

The relative value of VAT in Member States' tax receipts and GNP is illustrated in Table 2.1, which shows that VAT's weight in national tax systems is highest in GR, IRL and P (over 20%) and lowest in L (14%). In terms of GDP it is important in DK, F, IRL, GR and NL (over 8%) while in D, I, E it is below 6%.

(5) The Commission stated, when proposing the new Regulation on VAT own resources (Council Minutes ad Art. 12 of Regulation No 1553/89 in Doc. R/6129/89 - Annex I), its intention to contribute to curb VAT evasion, by stressing the Community character of this action before the European public opinion and by providing for an objective assessment of the degree of effectiveness of the various national collection and control systems, so as to highlight the advantages and disadvantages of promoting convergence towards the highest degree of effectiveness.

The Commission's action is also supported by Parliament, whose Resolution of 7.4.1987 requested the Commission to develop a convincing concept for ameliorating the control of own resources and curbing fraud (cf. Commission's Report on Fraud of 20.11.87 (COM(87)572 final p. 1)). This concern has again been taken up by Parliament's Resolution of 13.4.1989 and by the Council in its meeting on economic and fiscal questions of 13.3.1989.

2.2. VAT systems' characteristics

The effectiveness of VAT administration in collecting the tax and curbing non-compliance is greatly influenced by the characteristics of the taxpayers' population. It is also determined by the administration's resources and design, which to a large extent is also influenced by the taxpayers population's characteristics. It is therefore in order to start with a quick glance at the salient features of the environment and structure of VAT administration.

2.2.1. Taxpayers

Amongst taxpayers' characteristics one can single out several ones that can particularly influence the ease or difficulty in performing the task of collecting and controlling VAT, namely, their number, their size, business activity, and geographical distribution, the level of their accounting and management skills, and the importance of informal activity in the economy.

Administering large taxpayer populations may prove difficult because acquiring information on individual taxpayers and cross-checking it for audit purposes tends to be much harder and require much more complex automation systems in large populations. Thus administrative methods that are optimal in, say, Luxembourg with 19 000 taxpayers, may not be applicable eg. in Italy, which has over 5 million. (See Table 2.2.1 a)).

It is also acknowledged that in countries with a high proportion of large firms like D,F,UK (see Table 2.2.1 b)) VAT administration is relatively easier than in those with a myriad of small businesses, since in the former ones non-compliance can be reduced to statistically non-significant levels by monitoring just a relatively small number of taxpayers (even if one wants to monitor all big ones), and hence at a reasonable cost. On the other hand, keeping non-compliance at these same levels in atomised populations like E,I,GR, P might not be affordable. Further problems are faced by countries where the taxpayer population is especially volatile.

The industry breakdown is also relevant. Businesses producing goods and services which are closer to the final consumption stage and where value added accounts for a relatively large proportion of the price are as a rule difficult to monitor. The main reason is that the combination of high value added (which makes the tax increase the price significantly) and non-deductibility of the tax at the final stage creates incentives for evasion and makes this evasion difficult to trace. On the other hand for producers of intermediate goods and services, the provisions for tax deductibility and especially the number of cross-transactions with other traders make evasion both less attractive and easier to disclose. (See Table 2.2.1. c)). In this respect the Italian VAT Administration faces the most difficult environment, together with B and P.

The accomplishment of VAT administrations' missions is likely to be easier for administrations operating in geographically concentrated than in largely sparse constituencies. This is mainly because the former are likely to enjoy lower infrastructure, information, and communication costs⁽⁶⁾. Countries where accounting and management skills are relatively lower are also likely to face more difficulties in the audit function. Moreover, lower management and accounting skills tend to be associated with poorer information on tax matters and with lower compliance. On the other hand, efficient auditing of firms with sophisticated accounting and management systems will also require from tax officials special skills and effort to check through technicalities, while average firms are likely to be those easiest to control. B,NL,F,DK,D and UK show a high proportion of medium-sized firms and hence are likely to face less difficulties.

2.2.2. The administrations

a) Functional and geographical structure

There is no single pattern of tax administration's functional structure in MS. As shown in Table 2.2.2.a), in some MS (D,GR) the department responsible for VAT on domestic transactions is different from the one in charge of administering VAT on imports. In other MS (UK) VAT on all transactions is administered by the same department, which in D,DK, IRL,NL is also responsible for all other business taxes.

With regard to the geographical structure, there are also divergences amongst MS, also influenced by the functional structure referred to above and by the apportionment of responsibilities between headquarters and local VAT offices.

b) Staff and training

The comparison of VAT administrations' resources (Table 2.2.2.b)) is made difficult by their different structures - which imply that staff and resources are not always specifically allocated to VAT.

As concerns training, all MS run training programmes for new recruits, and continued programmes for more senior staff on new legislative and relevant issues. The duration and coverage of those programmes, as well as the mix of courses and on-the-job training vary widely across MS (Table 2.2.2.b)). In particular, all MS include Community issues and anti-fraud training, although to different degrees.

c) Computerisation

In all MS collection procedures are at least partly computerised as depicted in Table 2.2.2.c), with full automation of collection tasks, and audit selection, having being completed in several MS (UK,NL,DK).

(6) This is the case even if developments in information technologies contribute to neutralise the handicaps of sparse constituencies.

3. COLLECTION AND CONTROL PROBLEMS

The problems as identified by MS Administrations, are highlighted in Annex 3.

In principle, VAT has advantages over other production and consumption taxes in terms of neutrality, and its structure has built-in elements to check evasion. However, its collection and control are still made difficult by the large number of taxpayers and by VAT's complex structure, which requires that a substantial amount of information be processed in order to calculate the actual taxpayer's liability⁽⁷⁾.

While this information is available to the taxpayer at some stage during the operation of his business, it is much more difficult and costly and in some cases even impossible for the tax administration to collect and process this same information (which, moreover, is increasingly kept in a computerised form), and assess the tax liability. Tax collection through voluntary compliance lends itself to automation and mass processing and is therefore much less costly than tax collected through enforcement which is much more labour intensive and lends itself to a considerably lesser extent to standardisation.

Furthermore, while transactions between two traders can be traced in their accounting systems, those between taxpayers and non-taxpayers are much more difficult to detect and estimate by the administration.

Therefore cooperation between taxpayers and tax administrations is necessary if tax systems are to operate efficiently. Changing attitudes towards the definition of the administration's missions and taxpayers' rights have also contributed to shape this cooperation climate. A clear trend is developing in all Member States to rely on self assessment and pay increasing attention to ensuring voluntary compliance.

This attention to voluntary compliance does not replace, but needs to be complemented with, a strengthened system of enforcement and control to redress the behaviour of those taxpayers who still try to evade their responsibilities. This system of control, which has to apply to all taxpayers, imposes some burden on those who do comply, and thus put some limits to the cost reduction potential of the new approach.

3.1. Factors influencing voluntary compliance

Some of the problems that hinder voluntary VAT compliance are not specific to this tax and therefore require action beyond the scope of VAT administrations. This is more so in Member States where VAT is administered together with other taxes. The problems that can be more particularly traced to VAT may be classified into three main categories, namely high compliance costs, inequity perception, and low expected penalties for delinquent behaviour (i.e. either low risk of being detected, or low penalty if detected).

(7) e.g., the breakdown of his own activity by the various tax rates, the exempted part of his business, the full array of VAT payments to his suppliers, the part thereof corresponding to inputs for which VAT is non-deductible.

Complexity and instability of the tax code are the main sources of compliance costs. National VAT legislation is often profuse, ever changing, complicated. These problems owe much to the complex structure of the tax itself but are accentuated in some cases by the use of VAT to address price or budgetary policies, or to promote specific activities, and by the effort to counter avoidance by filling loopholes. The rate structure (Tables 3.1.a and 3.1.b) and its evolution reflect the influence of these objectives. Tax complexity and instability create the need for the taxpayer (and for VAT staff) to understand his rights and obligations and keep abreast of new provisions. This information effort creates a costly burden on taxpayers, who may either not afford it or not be willing to bear it, thus leading to involuntary or cognisant irregularities. They also increase the administration's internal costs of training staff and adjusting procedures (e.g. new forms, software changes) especially where the administration has decided to alleviate taxpayers' costs by improving information and assistance.

Complexity may also be created by procedural norms. For example, tax forms requesting profuse, too detailed information, especially where that information is not useful for taxpayers' own management systems, increase compliance costs and discourage compliance. They also complicate the handling of tax returns. Too many different forms or significant changes in them also make compliance and computer processing more difficult. On the other hand, too synthetic or ill-designed forms deprive the tax administration of necessary information. The data requested in returns are not always directly relevant for collection and control. Nevertheless, they may be useful to check the reliability of crucial items. Moreover, a complete return is the counterpart of self-assessment systems. The requirement to keep records of tax-relevant data for too long periods may also place a burden on compliance, as do difficulties in collection systems (e.g. few collection offices).

Some formal obligations may result not only in higher compliance costs for consumers, but also in reduced revenue or the downgrading of its efficiency image for the administration if it does not have the necessary resources to enforce it. Because then the administration in allocating its scarce resources must choose between shifting resources away from other responsibilities - which may have higher revenue potential - and not sufficiently enforcing the new measure.

Secondly, taxpayers' perception of fiscal inequity, both in general and for VAT (e.g. unequal incidence of tax audits amongst the various groups of taxpayers) is an element discouraging voluntary compliance.

Finally, compliance is fostered by the deterrent effect of the tax enforcement activities. Taxpayers' perception of inefficiencies in tax administration tend to discourage compliance inasmuch as they reduce the likelihood of detection and sanctioning of non-compliance.

3.2. Problems associated with collection and inspection structures

Turning now to the problems specifically associated with enforced, as opposed to voluntary, compliance, one can distinguish four major types of non-compliance, namely failure to register, failure to submit a return or make the associated payment, wrong assessment, and overdue payments. Effective enforcement requires combined effectiveness in tackling the four problems. Otherwise non-compliance is merely shifted to the area where enforcement is weakest.

Particular attention must be paid to ensure that information stored in the taxpayers' register is accurately and promptly updated (e.g. that taxpayers' addresses are up-to-date and entries of discontinued traders are deleted) and where there are several partial registers, that they are properly coordinated. Otherwise nonregistration is made easier, either because the administration has no trace of the unregistered trader, or because inaccuracy makes the information contained in the register unreliable (traders are wrongly deemed liable for the tax) . Difficulties in accessing information from other tax branches or external sources to validate voluntary returns may also hinder efficiency.

Where information processing systems fail swiftly to process incoming returns and payments and accurately enter that information into the taxpayer record, it is often difficult to discern which taxpayers actually, and in time, submit returns and pay their obligations. This is the best environment for defaults and overdue accounts. So do inaccuracies in registers, which prevent the matching of returns and existing records, and untimely or unsystematic monitoring and enforcement of sanctions.

Evasion in turn is countered by the administration's improvements in information and data processing capacity to make computer-based checks for inconsistencies in tax returns (besides arithmetic and formal consistency, consistency of data with the trader's previous returns, with the data reported by similar traders in the same business, and with those reported by the trader's suppliers and clients).

Opportunities for misrepresentation of tax liabilities arise where return forms fail to request some relevant piece of information, or where the administration, despite its efforts, cannot keep abreast of developments in business management techniques, or has difficulties in sorting taxpayers by various criteria.

Opportunities for misrepresentation are reduced also by improving coordination and communication with the various fiscal branches, with the judicial system, or other public or private entities which are either suppliers or customers of the traders who are being audited (e.g. banks, real estate and utilities companies).

Furthermore, although the short-term objective of audits is obviously detecting underdeclaration, some audit plans are focused too much on short-term maximisation of audit yields, and on the fact that visits to small traders contribute little on average to overall tax receipts. Audit plans then overemphasize the priority given to thorough audits of large traders, and neglect evasion by smaller taxpayers which altogether may be significant, and which can partly be prevented by the deterrent effect of noticeable, quick, and preventive audits. Therefore a wide range of audit programmes makes it possible to adjust the available means to the complexity of the returns to be audited.

Outstanding tax debts are in turn nurtured by the lack of timely, systematic, reminders, monitoring of defaults, which enable debts to roll over and become irrecoverable. So do slow collection systems of (compliant or enforced) debts.

Sanctions systems adequately discriminating amongst classes of irregularities (e.g. between fraudulent and error-led irregularities) and sufficiently flexible (applying deterrent penalties but avoiding too high cash sanctions for failure to submit returns) may remove incentives for traders to leave, or keep away of, the formal economy.

All conditions making overdue taxes cheaper than commercial financing are also incentives for non-compliance. Examples of these conditions are low default interest rates, untimely administrative debt enforcement mechanisms, appeal procedures allowing deferred payment of the tax debt and penalties, administrative and judicial appeal decisions frequently favouring the taxpayer (especially where no interest is due even in case of the appeal not been upheld), and tax amnesties.

The tax administration's performance, both as compliance and enforcement organiser, is thwarted by the inadequacy of its resources. Here again the problem is common to other branches of the tax administration, and public administrations in general. However, the drain of experienced staff to the private sector is especially acute in this area since tax specialists are in high demand by consultancy firms and large traders, and several MS agree in pointing out the seriousness of this problem for recruiting and retaining tax-computer specialists. Training is then necessary to maintain the level of expertise but, in a context of high staff turnover, increases costs significantly.

Again a better organisation of both compliance and enforcement requires the processing of a large, increasing volume of information that can hardly be handled without adequate computing facilities. This is more so given the staff constraints referred to above. Where specific functions (e.g. registration and collection), have been fully computerised, but automation has not yet reached other functions, like audit, opportunities for non-compliance are likely to persist.

Moreover, much of the tax-relevant information is best collected locally (taxpayer information), but often useful to inspectors in other districts. Conversely, information on legislation and procedural norms flow in the opposite direction. Some MS have not yet developed telecommunications networks between central and local offices which could improve the efficiency of enforcement.

Finally, a balance is difficult to strike between the efforts to guarantee taxpayers rights concerning the obtention, storage and use of tax-relevant information and the need to secure a sufficient flow of that information for enforcement purposes.

4. MEMBER STATES MEASURES TO IMPROVE COLLECTION AND AUDIT SYSTEMS

Annexes 4 a), b) and c) summarise the measures recently implemented or contemplated by MS.

4.1. Improving voluntary compliance

Measures likely to foster voluntary compliance by dealing with the difficulties discussed in Section 3. fall under three main categories, namely reducing compliance costs, enhancing the equity image, and boosting taxpayers' perception of the administration's enforcement effectiveness.

4.1.1. Reduction of compliance costs

A simpler substantial and procedural VAT legislation has been singled out as one of the priority objectives of the UK VAT strategy. Similarly, the collection and consolidation of all sparse VAT legislation into a new Code is one of the objectives in I. The UK has also gone farthest in the attention paid to taxpayers' compliance costs by systematically undertaking assessments of the compliance costs implied by new budgetary measures, and by giving publicity to draft measures and having them discussed by an advisory committee of representatives of professional associations. Some MS (E,L,NL,P) publish every year the basic VAT code, and the supplementary VAT laws. In addition, NL,E,P send to all VAT taxpayers information on the legislative and procedural changes introduced in the course of the year. Changes to VAT legislation are also regularly published in D.

Where simplification is not possible compliance costs can be reduced by improving information and assistance on taxpayer's obligations. A number of measures have been devised in MS that serve this same purpose. Some examples are the expansion of the network of enquiries branches, or the creation of enquiries sections within local tax offices (B,F,D,DK,UK) special bodies or information packages aimed at groups of taxpayers facing special difficulties, like business start-ups (B,D,F), extending opening hours of enquiries services into the evening (P), periodicals (B), a free-phone tax information service (NL) or interactive video and videotext systems (E,P). (Table 4.1.1)

4.1.2. Equity enhancement

Besides issues which are outside the scope of the VAT administrations like the number, types, and quality of publicly provided services, or the equity implications of other taxes, the operation of the VAT administration can influence taxpayer's perception of the equity of the tax system, and hence contribute to improve compliance, in two main ways.

Firstly by providing undiscriminated treatment to all groups of taxpayers equally complying with their obligations. This implies in particular that no group of taxpayers be able to enjoy a lower effective rate via a weaker than average enforcement level. This problem can be avoided at the audit plan stage by designing the audit strategy to cover as broad a taxpayer sample as possible in terms of number of groups and areas. This is the case in I, E and B which explicitly use random selection criteria alongside targetted selection (which itself builds on specific information). In D, GR and the UK the same objective is served by means of systematic quick visits to all traders who share certain audit criteria. ✓

Differences in treatment may also be originated by differences in information available to audit staff or in the audit techniques that they use. This is why VAT headquarters in some MS distribute standardised information on legal provisions and jurisprudence to all branches (B,D,DK,F,P,UK), or set up normative electronic data bases (D,E,P,NL, contemplated in B) that can be accessed by local VAT offices, to ensure that all auditors apply the same rules and interpret them in a coherent fashion. Differences in auditors' methods and skills are smoothed by the standardised production and use of audit checklists (D, UK and partly GR), briefing files including extracts of the

taxpayer's record, as well as key industry- and area-specific indicators (DK,F,P,UK), visit report forms (B,IRL), and in particular by the use of computer-assisted audit expert systems (like ESKORT, a portable-computer based system of guided audit) (See Annex 4.1.2.a)).

The second main factor affecting taxpayers' perception of equity or fairness of the tax administration is the balance between the administration and the taxpayer's rights and obligations. In this respect recent trends can be observed in several MS to enhance even further and give publicity to taxpayers' rights by drafting taxpayers' rights charters (B,DK,I,NL,UK,IRL) and "vatpayers charters" (UK). These charters stipulate rights on issues like auditors' access to premises and information, appeal procedures, financial outcomes of errors or omissions by the taxpayer and the administration. D,E,F have issued more limited taxpayers's guides to control. (Table 4.1.2. and Annex 4.1.2. b)).

4.1.3. Improving taxpayers' perception of enforcement effectiveness

Finally, a key element affecting compliance is the performance of the tax administration in general and the VAT administration in particular, as perceived by the taxpayer. The effect is two-fold. First, by improving performance taxpayers receive higher value as public services for their tax money. Second, an effective administration acts as a deterrent of non-compliance because it increases the likelihood for non-compliers of being detected and being imposed penalties.

In order to enhance their image, tax (and in particular VAT) administrations in various MS have devised marketing and public relations campaigns, created logos (DK,P,UK,IRL) that associate it with the dynamic, innovating corporate model rather than with the bureaucratic image of general government. Initiatives like advertising campaigns on the initiatives and achievements (E,F,IRL,UK), modernisation of premises (E,P), of publications' layouts (E,IRL), or of the technology (DK,NL,UK) used by the VAT administration all go in this same direction.

More in substance, issues like the reduction of process times, and timeliness of the various procedures, the quality and quantity of the taxpayer-specific information that the administration discloses at the pre-assessment, default assessment, and audit stages, the speed of reply to taxpayers' actions, are certainly more influential in configuring the administration's performance image and most MS have taken initiatives to make improvements in these respects. Moreover, the introduction of new payment systems (like automated transfer payment from the taxpayer's bank to the Central Bank or the Treasury) may contribute to reinforce the effectiveness of tax administration in collecting the tax.

Furthermore, effectiveness is the necessary complement of other preventive measures that tend to provide the administration with information or legal bases to act against non-compliers. The deterrent effect of new such measures, like extending registration to traders that are only potential taxpayers, more comprehensive returns, suppliers-customers listings, or repayment bonds, will only be reached if it is soon made clear that the administration can accurately and effectively (even if sometimes selectively) use them. The experience of IRL with the system of sheriffs confirms this point.

4.2. Reinforcing and optimising resources

4.2.1. Automation

Collection involves receiving and manipulating large amounts of returns (Table 4.2.1), processing and storing information, and handling tax payments and refunds. These tasks are usually well defined in the tax code so that there is little room for subjectivities in performing them except for a few discretionary decisions like penalty setting or payment deferral, where endorsed by the tax code.

Audit activities require the obtention from various sources, but mainly from visits to taxpayers, of relevant information not spontaneously supplied by taxpayers. Some of these activities involve personal negotiation and often interpretation of procedural norms and judgments about their application to specific situations.

All MS have adopted initiatives to automate collection procedures, so as to reduce production costs, improve service levels, and ease the human resources constraint. As illustrated on Table 2.2.2. c) collection has been fully computerised in B,DK,E,IRL,UK and to varying degrees in all remaining MS. In D a time-table has been devised for computerisation of the new Lander, which will complete the full automation of the VAT administration.

Auditing has also incorporated information technologies, especially in the area of desk audits (Annex 4.2.1.). Computer software has been developed in most countries to carry out consistency tests of the information reported by the taxpayer against that contained in its record or in those of the taxpayers it does business with (B,E,F,DK). Some administrations (like DK,F,NL) have provided their control visits staff with portable computers or set up computerised control brigades and have developed expert systems as aids to audit (DK,NL,UK, in progress in F,I) and instruments to audit computerised accounting systems (DK, in progress in F).

Networks linking computers have also been devised as a way to enhance staff productivity at headquarters and to enable the exchange of information with other branches of the tax administration through documentary data bases including legislation, procedural regulations and jurisprudence (D,B,E,I,P), data storage and retrieval, and electronic mail, facilities. In B and P these networks are also envisaged to make certain documentary data bases accessible (with adequate restrictions and safeguards) to taxpayers.

4.2.2. Human resources

Besides automation MS have devised various initiatives to cope with the human resources problem. They include enhancing recruitment strategies, reorganising career structures or services, and incorporating more flexible employment and salary arrangements, improving motivation, privatising some activities, and setting up important training programmes. Training is used as a means for career development and enhancing motivation, adapting existing staff to the new career structures, filling the gaps left by resignations, and improving the level of service.

A massive recruitment plan of control officers has been announced in I, but in other countries recruitments have been frozen by the budgetary authorities, or staff has even been reduced. Where recruitment has been possible, strategies have consisted of focusing on university graduates to fill the intermediate posts (P) or comprehensive plans including recruitment literature and videos, closer links with schools and universities and the Armed Forces, open days and other marketing initiatives (UK).

Reorganisation of career structures has also been used in the UK, where part-timers and trainees programmes have been adopted as well, and geographical mobility by means of secondments from overmanned offices to others in need of staff has been fostered through salary bonuses. In other countries (DK,E, contemplated in B) the staff problem has been tackled by merging the administration of the various taxes into all-tax services, thus enabling staff reallocations.

Some administrations have devised industrial relations and motivation initiatives. They have consisted of improving the working conditions by relocating and modernising facilities, taking up more entrepreneurial culture and marketing instruments like logos, form designs and advertising (DK,E,I,IRL,P,F,UK). In the UK special attention has been given to discussions with the trade union side on numerous issues related to working conditions.

All MS have developed staff permanent training programmes to keep up with new legislation and business methods although the scope and intensiveness of these programmes varies greatly from one country to another. Furthermore, in B and IRL salary incentives have been granted to staff taking external or in-house training courses.

4.3. Improvements in tax administration processes

4.3.1. Registration

As pointed out earlier, the existence of a register of taxpayers containing accurate and relevant information on the taxpayer population is essential for effectively monitoring compliance in filing, assessing, and paying, and is extremely useful for properly programming audit activities.

a) Taxpayer identification number

As shown in Table 4.3.1. all MS have registers. Some MS (D,DK,I,P,GR,E) have gone farthest in developing a single register for all relevant taxes, based on a single tax identification code issued by the tax administration (in P only for independent professionals, other traders' code being issued by the Ministry of Justice). The code must be quoted (except for D and DK) in all tax matters and in a number of economic transactions (e.g. opening a bank account, real estate transactions). (Annex 4.3.1.).

b) Coverage

The informational coverage of VAT or all-tax registers varies considerably across countries. Countries like E systematically enter all major economic transactions. P also includes references of queries made by the taxpayer to the tax administration.

With regard to which taxpayers are entitled or required to register some countries try to restrict the register to the minimum size possible and confine it to active taxpayers, i.e. those required to pay the tax or entitled to claim repayments, while others adopt a more comprehensive approach to registration and require that certain potential taxpayers be registered as well.

c) Organisation

Compliance with the registration requirement is eased where this procedure is made simultaneously with registration with professional associations or with other steps necessary for normal business operations. This is the case where registration formalities can be cleared at local chambers of commerce, professional associations, or cooperatives registries (F).

In D,E the tax register is kept decentralized on a district (provincial) basis. In GR,P,UK however, a single national register exists which is located at headquarters. In B a single VAT register exists but it is managed locally.

Updating the key data in taxpayers' records (and in particular changes of address, of activity, or cessation of activity) is of crucial importance for the reliability of the whole register and the effectiveness of all other collection and audit functions. Updating is facilitated by incorporating it in the regular returns process, as done in B,D,NL, whereas in D,GR,L,UK,IRL,I changes in the taxpayer's particulars must be communicated to the tax authorities as a separate procedure.

d) Enforcement of registration

Checks for unregistered traders are made by means of all-out searches within a district (D), by special fiscal intelligence units in local or national tax offices (F,D), by occasional (I) or systematic (B,IRL,L) cross-checks with other public or semi-public registers, or by references reported by other traders in their invoices (P) or customers/suppliers listings (UK), by "good citizens" reports, or by monitoring press advertisements.

4.3 2. Returns processing and collection

a) Assistance: Pre-processed draft returns

Pre-processed returns or blocks of information sent by the VAT administration to taxpayers serve various purposes. They reduce the number of returns with missing or mistaken identification data which are unprocessable. This has been solved in DK,L,F,P,UK by sending return forms where the identification block has been filled in with the information contained in the taxpayer's record. The same objective is met by the production and distribution to taxpayers of pre-processed identification labels to be attached to returns and all other tax correspondence (B,E) or of preprinted money transfer forms where only the tax debt has to be filled in (NL).

b) Procedure

The following main models emerge from MS practice regarding the choice of the point of reception and processing of VAT returns

i) Centralized collection and process:

VAT returns are mailed by the taxpayer, together with payment or proof thereof directly to headquarters in P, IRL, L, UK.

ii) Decentralized collection and process:

Reception is made locally at VAT or authorised financial institutions' branches, and processed locally. It is the case of DK, E, F and D. (Annex 4.3.2.).

iii) Decentralized collection, centralized process:

Some MS make use of third parties, like authorised financial institutions (I) or the Post Office (GR) for collection of tax payments.

iv) Returns are sent to the local offices and payments made to a central financial account (B, NL).

c) Default returns

Several MS (D, IRL) have developed and implemented computer-based checks that issue automatic reminders to taxpayers who fail to submit at the end of collection periods, and some (B, D, DK, E, UK, F, IRL, L) issue estimated assessments that are sent to the taxpayer with estimates of tax liabilities which are based on either the previous taxpayer's record (average declaration, or maximum historical declaration) or on industry averages.

4.3.3. Assessment control and auditing

a) Assistance

Full pre-processing of draft returns is a form of assistance to taxpayers and hence of reducing compliance costs. Where they are based on sufficiently accurate information, officially issued draft returns can also serve the purpose of deterrence by showing the taxpayer that the administration possesses the relevant information.

b) Objectives and performance measures

Given the labour-intensive nature of audit visits (Table 4.3.3.a)), and the manpower scarcity affecting all tax administrations, in (most) MS audit visits are targetted with a view to maximise the additional taxes detected at visits, and audit effectiveness is measured by the audit-disclosed tax base increases (Table 4.3.3.b)). In addition, some countries (I, GR, UK) use random or semi-random methods which enhance the preventive action, as they make it possible to reach a broader population and thus deter hesitant compliers.

In some countries (B, D, E, P, DK, UK, IRL) excess tax payments detected in the audit process are credited to the taxpayer.

c) Desk audits

There are three levels of audit of incoming declarations. First formal mistakes or arithmetical errors are checked at reception (DK,E,F,IRL,UK,D,GR,B). Next inconsistencies of the reported information with key data in the taxpayer's record are also checked at an earlier stage in P. In some countries (F,D,I,UK) returns are systematically checked but with a limited scope through computer systems, and more thoroughly by means of a series of criteria (size of tax liability or of repayment claims, persistent tax credit situation, industry, significant business or tax liability fluctuations, irregularities' record) or ratios (e.g. operating margins, sales/imports) for which average or typical reference values are estimated as a function of industry and location. Outlying cases are then singled out for further audit.

d) Audit visits: Resource allocation and management control

The implementation of the short term yield maximization objective results in most MS in audit strategies that give priority to large traders, sensitive sectors, and thorough audit analyses (Table 4.3.3.c)). Some MS (UK,D) adopt audit strategies based on more widespread, quicker visits. On-going research on this issue in several MS (F,B,D,UK) points in the direction of combining both types of audit to meet the two abovementioned objectives.

Widening the range of "audit processes" is also the right way to discriminate amongst traders and environments with differing characteristics. Thus, specialized units have been set up (usually at headquarters) in most MS (B,UK,F,E,I,IRL,D) to cater for larger traders, and some MS have also developed units that specialize in auditing specific industries (F,D), or functions like computerised accounting systems (F,I,UK). The need for adjusting audit methods to the type of presumed irregularity has been felt in some countries (UK,F,B,I,E,D) where fraud cases are dealt with by specialised teams. D has also developed local audit teams specialising in quick, well focused VAT controls, as a complement of all-tax, thorough audits. These teams enable the administration to swiftly check individual presumed irregularities (e.g. abnormally high repayment claims).

e) Organisation

Concerning the decision-making processes in designing the audit plan, although some differences in approach exist across MS (top down in I, bottom up in F there is a tendency to assign greater levels of responsibility to the local level as the importance of local knowledge is increasingly recognised.

Decentralized decision making is also favoured by recent solutions to three problems hitherto associated with decentralization, namely, insufficient coordination, sub-optimal auditors' training and resources, and inequality of treatment.

The development of efficient information networks between local or regional branches and headquarters enable peripheral units to have quick access to information on legislation and procedures, and to national or other regional taxpayer registers (D,E). Coordination and resource allocation is also improved by new management control systems (like ALPAGE in F) that enable regional or national supervisors to monitor the use of audit resources and to update audit plans at local levels.

Efficiency gains may also arise from combined control of indirect and direct taxes (D,F,I,DK,E,GR), as well as from checks between data relating to foreign transactions and domestic activity.

Improvements in audit performance and equity are made possible by the use of new technologies, like portable computers loaded with expert systems (NL, ESKORT in DK), or by the computer-generated production of audit support material like taxpayer record summaries (D) and analyses and industry-relevant statistical material (D,F,P) as well as guidelines or checklists (B,UK). Standardised audit reports also contribute (in DK,IRL) to provide a more uniform level of service across the whole territory.

4.3.4. Arrears collection and enforcement

As discussed earlier, systematic monitoring of return defaults and swift enforcement of debts (and sanctions) either by contracting out overdue debts to private collection companies (UK), private persons who are mandated as collection officers (like in IRL) or by the administration itself (D) is crucial to prevent debts from snowballing and traders from becoming untraceable, besides the deterrent effect that swift action has on hesitant compliers (Table 4.3.4.).

Systems enabling the administration to detect taxpayers' liquidity problems (DK,UK) are also useful tools to prevent and enforce overdue payments before they become irrecoverable.

The approach to penalties for traders with overdue accounts differs across MS. Some (P,IRL,D) tend to use high default interest rates rather than separate penalties, the objective being to make tax payment default considerably more expensive than commercial bank financing.

The tendency towards voluntary regularisation of overdue accounts is illustrated by some MS's (P) practice of allowing for payment of arrears (with interest) with the subsequent return and thus delaying action until the next submission deadline.

4.4. Coordination with other administrations and institutions

4.4.1. Tax administrations

The issue of coordination between VAT administration and other tax administrations (Table 4.4.1.) is clearly linked to that of the tax administration structure, since the pattern adopted is both a consequence and a cause of the perceived need for coordinating the operations of VAT and other taxes. Section 2 highlighted the various approaches to the organisation of VAT namely, assigning the responsibility over VAT on imports to Customs and excises administrations and those for domestic VAT to a different tax branch (B,F,D,GR,L,E,I,P), or merging the responsibility for both in a single tax department (DK,IRL,NL,UK).

Traditionally the design of tax administrations was organised on a tax (product) basis. As new management methods were adopted in some countries (UK) functions gained importance and taxes having similar functions were managed in an integrated way. Recently, a trend seems to emerge for this pattern to give way to customer-based organisation of tax administrations, leading to merge all business taxes under a single

management (DK, IRL, NL) to emphasize the importance of information and of an integrated approach in a process that mirrors the process of restructuring large service organisations (e.g. financial services) in the private sector.

With regard to VAT collection, coordination involves exchanging any relevant information concerning the taxpayer and carrying out coordinated audits, as well as exchanging information on fraud systems as soon as they are disclosed.

In France, for instance the exchange of information amongst administrations is made by means of a systematic arrangement. The tax administration has access to all files of the Customs administration. In B, the VAT administration has access to all other tax and non-tax administrations' documents and information concerning taxpayers that are relevant for VAT collection.

4.4.2. Coordination with other non-tax administrations

Cooperation with police authorities in assessing VAT infringements is frequent in D, GR, P, while in I it is also made with specialised fiscal police institutions (Guardia di Finanza) (Annex 4.4.2.). In P the "Guarda fiscal" and in GR the "Ipeda" cooperate in controlling the transit of goods. The Guardia di Finanza has been delegated responsibilities for assessing VAT and fighting fraud by means of regular agreements with fiscal authorities. Police and Guardia di Finanza cooperate in criminal enforcement. Guardia di Finanza exchanges information regularly with each other fiscal administration on the audit actions they undertake. Cooperation with the judicial administration proves also important in collection as source of information on taxpayers' creditworthiness, in audit selection and assessment of irregularities, and more importantly in some countries(I), in the context of appeals, where close coordination is the key to efficient enforcement of tax debts. Cooperation is also necessary with official registries, often integrated in justice departments.

4.4.3. Coordination with other institutions

In certain MS (D, DK, E, F) tax authorities may address requests for information directly to banks and other organisations in the context of audits. In others (UK, P, NL, GR, B, I) the right of communication requires a prior warrant. Coordination with other semi-public or even private organisations is also of great use in maintaining the register. In this respect the case of F where registration formalities can be cleared at institutions (e.g. chambers of commerce, professional associations) having been awarded the label "Business Formalities centres" is worth mentioning. Moreover, information from public enterprises and, more generally, from utilities companies and large traders on the identity of their suppliers and customers has proved to be of great use in audits.

4.4.4. Cooperation amongst Member States' administrations

Mutual assistance cooperation amongst MS tax administrations to enforce VAT legislation is supported and organised by two main instruments. Directive 79/1070/CEE extending Directive 77/799/CEE to VAT, concerns assistance for a proper application of regulations, and Directive 79/1071 extending Directive 76/308 to VAT deals with mutual assistance in collecting VAT liabilities. On an intergovernmental basis cooperation is also provided in the framework of the Naples Convention.

All mutual assistance instruments mainly provide for exchanges of information, either on request, spontaneously by an administration, or systematically, if so agreed by the administrations concerned.

Some MS (UK,F,D,NL,B) make frequent use of mutual assistance instruments, whereas DK,E,I,IRL,L,P rarely rely on them and GR has not yet transposed the directives into national legislation.

4.5. Penalties

The effectiveness of the tax administration as enforcement organiser will depend on the likelihood of detecting irregularities in audit searches, and on the effective penalty being imposed if detected. The effectiveness of penalties is in turn determined by the level of enforcement of statutory penalties, since, as discussed earlier, enacted penalties lose their preventive effect if they are scarcely enforced or not enforced at all.

Penalties also require good taxpayer information in order to be effective. If taxpayers are poorly informed, it is likely that they unwillingly infringe the code. Penalties will not then be the best way to prevent this kind of irregularity which is incidentally disclosed frequently in audits. Therefore MS like the UK which stress taxpayer information policies (see 4.1.) are indirectly working to improve penalties systems.

4.5.1. Flexibility

All MS have penalties systems which provide for differentiated penalties according to the seriousness of the offence (fraud, neglect), the nature of the infringed obligation (failure to submit returns, submission of false statements), and its financial consequences for the exchequer (length of delays, amount of tax debt), with sanctions ranging from small fines to prison sentences (for serious cases of fraud). (Table 4.5.1.a).

a) Failure to register

As discussed earlier, non-registration makes it easier for non-submitters to avoid detection and deprives the administration from useful information (unless the taxpayer is registered for some other tax and communication channels exist between the two registers) but in itself does not have direct financial implications. This is why some countries (IRL), although empowered to effect penalties, actually waive them.

b) Late payments

Late payments (or late submission of returns) allow the taxpayer an undue liquidity advantage that is corrected in all MS with default interest (Table 4.5.1.b), at rates often exceeding those of commercial financing, to discourage taxpayers from using the tax administration as a source of finance for their businesses. In addition some MS (UK) apply penalties whose levels usually depend on the time elapsed.

Besides the power to make estimated assessments, the range of penalties applied to late submitters is quite wide, both within and across MS, with lower bounds of the order of 10% (F,L) and upper limits exceeding in certain cases 300% (E) of the tax due. However, negligence rather than fraud being in most cases the underlying cause of late submission, special provisions apply in some countries which waive the penalty (though not the interest) in case of voluntary disclosure within certain time limits or before audit starts (B,P,E,D).

c) Failure to submit a return

If no return is submitted, tax administrations may proceed to an official assessment based either on the taxpayer's earlier returns (D,DK,E,F,IRL,L,P,UK) or on some industry or area reference statistics (D,P). In order to deter traders from failing this obligation, some MS (IRL,NL) use the highest tax payment in the taxpayer's record as reference for estimation, applying a fine on the resulting amount.

Moreover, criminal intention being in practice difficult to establish in this type of offence, penalties for non-submission range usually in the same scale as those for late submission.

d) Misrepresentation of the tax due

The causes of this type of offence being very diverse (from negligence to organised fraud), as are the types of misrepresentation (ranging from negligence in accounting or bookkeeping, understated invoices, overstated tax credits, to the issue of false invoices), and the magnitudes of the amounts evaded, penalties for this type of offence vary widely from small fines to imprisonment⁽⁸⁾. Nevertheless, since proof of fraudulent intention is also here in practice difficult to establish, penalties are in general comparable to those for late returns.

4.5.2. Enforcement

As referred to above, in addition to the differences in administrative penalties, there are also wide differences amongst MS with regard to their application. The main differences concern, time limitations for reassessments (Table 4.5.2.a) discretionarity (Table 4.5.2.b) to waive fines -totally or partially, unilaterally or through negotiation with the taxpayer (F)-, and of the use of tax amnesties (Table 4.5.2.c)). In order to enforce penalties all MS have provisions allowing for seizure of goods, while some MS (E,UK) allow also for liquidation of the company or temporary interdiction to use premises.

In most MS the tax administration's collection services are responsible for enforcement of administrative penalties and interest. Other MS have delegated this task to external special services like sheriffs (IRL), special factoring companies (I), or an autonomous public entity (E), entrusted with some delegation of public powers, with a view to speed collection.

(8) usually by courts, as tax administrations in most MS are not competent for criminal sanctions.

4.5.3. Appeals

a) Levels

As shown in Table 4.5.3. all MS provide for the possibility of appealing administration's assessments, with, if necessary, a subsequent judicial procedure where decisions made at the administrative level are reviewed. In most countries the majority of cases are resolved at the administrative level with the exception of I where taxpayers tend to make greater use of judicial courts.

b) Suspension of recovery

In several MS appeals against an assessment entail a suspension of the payment recovery. Suspension is applied in B and is left to the administration's discretion in (D,E,UK) or depends on a preliminary administrative decision on the taxpayer's request, who may have to provide a guarantee (F).

5. THE IMPLICATIONS OF THE ABOLITION OF FISCAL FRONTIERS

The abolition of fiscal controls at the Community's internal frontiers on 1st January 1993 will bring about changes in the way VAT collection is carried out and controlled in the Member States. These changes will affect the activities of firms, of national tax authorities and of the Community institutions. The future collection and control arrangements are described more fully at Annex 5.

The essential improvement of the system after 1st January 1993 is that it will combine a closer alignment of control on existing, well tried, domestic audit-based control methods, with a new, enhanced degree of cooperation, of exchange of information and of mutual assistance at the Community level. This will mean on the one hand a greater integration of domestic and intra-Community control methods in keeping with the objectives of the single market, and on the other hand a structure of cooperation between Member States which takes account of the control implications of the greater openness of that market.

For firms, the frontier formalities and documentation associated with each cross-frontier movement between Member States will come to an end. Firms will make periodic declarations of aggregate turnover figures. This is a development of existing and familiar audit-based practice, and is, as such, an important alleviation of the administrative burden of control. The benefits will be particularly significant for small and medium-sized enterprises.

At the level of national administrations, these periodic declarations, combined with the systematic and rapid computerised exchange of information provided for under the Regulation on Administrative Cooperation, will provide a comprehensive database for the monitoring of intra-Community commercial activity, the detection of irregularities and the pursuit of fraud.

At the Community level, provisions will be made for the monitoring and development of the operation of the control system in order to improve its effectiveness in the fight against fiscal fraud and evasion. This consultative structure will be in operation even before the abolition of fiscal frontier controls at the end of 1992.

The new tax regime will entail a reallocation of resources within administrations, and a number of procedural changes, that will have to be communicated to the taxpayers and the staff concerned. It will therefore be necessary to identify the priorities in the light of any implications that the new system may have for the improvement measures already envisaged in the more general context, and which are discussed in the next Section.

6. FINDINGS, ASSESSMENT AND SUGGESTIONS FOR IMPROVEMENT

Regarding measures recently taken or envisaged by MS in order to improve the effectiveness of their VAT or, more generally, of their tax collection and control procedures, the following findings appear worth mentioning:

A clear trend is observed emphasizing the need for

- a) measures and attitudes to secure taxpayer's cooperation and voluntary compliance,
- b) systematic application of selective enforcement methods for non-complying taxpayers and, in particular, for those perpetrating fraud.

In terms of means several trends also emerge from the analysis:

- c) thorough, coordinated computerisation of registration, assessment and collection procedures and the implementation of computer-based audit support methods, to reduce process time and costs.
- d) reorganisation and rationalisation of procedures and in particular, a trend towards greater involvement of local offices in collection and control procedures, and the integration or close coordination of VAT collection and control procedures with those of other taxes.
- e) continued training of staff to cope with changes in legislation as well as in the business environment and in technology.

While all MSs recognise the advantages of such developments, the priority given to each of them, and the level of implementation of the various associated measures vary from one MS to another.

Thus, the Commission has noticed that while the strategy of securing cooperation between the tax administration and the taxpayer is well incorporated into the overall plans of all Member States, some difficulties and lags are apparent in its implementation at the lower tiers of the administration, in particular in some Member States. These difficulties arise from the fact that the new strategy requires in most cases organisational and even cultural changes in the administration. But they should be tackled since the medium-term benefits of these changes are worth a reinforced effort.

Computerisation plans have been devised by all administrations. But in some Member States not sufficient attention has yet been paid to a balanced structuring of these systems so as to avoid bottlenecks or enforcement loopholes, especially given the recognised increased need for both decentralization and increased coordination within and between MS fiscal administrations.

Similarly, while coordinated auditing is well accepted by all Member States, some MS still leave little responsibility to local offices while in others some overlapping and lack of coordination seems to exist between the audit activities of national, local, and special units.

Moreover while some MS pay considerable attention to monitoring arrears, improvements in dealing with outstanding debts and appeal procedures are important in other MS. Some MS have been tempted to reduce the backlog with amnesties, which may contribute to perpetuate low compliance and result in a reduction of Community own resources.

The Commission therefore suggests MSs to accord to these changes an even increased attention and in particular to the areas listed below. The Commission considers that measures marked with an asterisk appear to be particularly efficient in combatting fraud. These suggestions have either proved successful in some MS or have been identified by analysts as particularly useful from the point of view of improving the efficiency of collection and control procedures. Of course all these suggestions should be contemplated in the context of the existing Community legislation on indirect taxation, and of each MS legal and regulatory provisions.

a) Measures to promote voluntary compliance

- Minimise taxpayer's compliance costs and give an image of commitment to efficiency, fairness, and service to the taxpayer, by means of:

[1] Simplifying legislation and procedures. In particular,

*[1.1] - Considering a reduction in the number of rates, so as to avoid confusion and errors, and to minimise the opportunities for misrepresentation, within the context of the recent Council agreement on the rates and their member applicable.

[1.2] - Simplifying certain special schemes,

*[1.3] - Simplifying the rules establishing rates applicable for each good and service,

*[1.4] - Minimising the number of changes to legislation due to non-tax considerations,

[1.5] - Grouping amendments into packages and issue them at regular intervals to facilitate information,

[1.6] - Where small firms are eligible for "forfait schemes" both in the income tax and in VAT, by applying the same estimation criteria in both schemes,

[1.7] - Establishing cooperation arrangements with professional associations or other institutions (e.g. chambers of commerce, social security) where traders usually register for other business purposes, so as to enable VAT registration formalities to be cleared with these institutions provided this does not lead to the registration of a large number of inactive taxpayers.

[1.8] - Using multi-purpose forms, and providing for updating (if applicable) of registration data in the regular return form.

[1.9] - Considering the possibility of collection by financial institutions or Post Office local branches.

*[2] Improving cooperation between taxpayers and the tax administration. In particular, by

[2.1] - Improving taxpayers information systems on their rights and obligations, e.g. by means of:

- electronic documentary data bases of VAT and other relevant legislation,
- reducing response time of enquiries on interpretation of specific provisions (either norms' interpretation at local offices or allowing enquiries directly to headquarters
- developing special information, assistance programmes for new businesses,
- binding enquiries,
- self-service information desks.

[2.2] - Devising publicity campaigns emphasizing the missions, achievements, and changes in the administration of VAT and the spillover effects of tax evasion.

*[2.3] - Enhancing respect for taxpayers' rights at control visits and publishing a taxpayer's rights charter.

[2.4] - Considering the possibility of written warning and of giving the taxpayer the opportunity to present his case before imposing serious penalties.

b) Enforcement methods

[3] The various enforcement measures should be oriented towards reestablishing voluntary compliance. In particular the following measures should be considered.

*[3.1] - Promote voluntary regularisation for minor irregularities of overdue accounts.

*[3.2] - Systematically monitor arrears and their evolution.

*[3.3] - Monitor the creditworthiness of traders in arrears.

*[3.4] - Give priority to the enforcement of large, newer debts.

*[3.5] - Allow flexible payments of arrears to avoid misrepresentation of the amounts due or persistent default.

[3.6] - Considering the feasibility of delegating minor arrears (and minor court sanctions) collection to private collection companies so as to increase effectiveness.

[3.7] - Foster voluntary self-assessments and reassessments, rather than administrative procedures to recover misrepresented tax.

*[3.8] - Penalties should be oriented towards promoting voluntary compliance and be relatively low for formal irregularities with no direct financial implications, and sufficiently high for cases with serious financial implications or criminal behaviour.

[3.9]- Default interest rates should be at least at par with commercial rates.

[3.10]- Guarantees should be requested in case of appeal.

[3.11]- Interest should be applied from the date due if the taxpayer's appeal is not upheld.

*[3.12]- Seizure powers should be extended to immovable assets.

[3.13]- Where appropriate, audits could focus on the most recent years' accounts and proceed backwards if irregularities are detected in the recent years' audit.

c) Computerisation

[4] Computerisation should gradually be applied to all procedures along the chain from registration to payment collection. In particular, computerisation of the following procedures should be envisaged:

*[4.1] - A, preferably single, computerised taxpayer register, based on a single identification code for all relevant taxes (however for the transitional VAT regime a separate VAT identification numbering system will be necessary)

[4.2] - Developing easy methods for traders to check the tax numbers of suppliers/customers.

[4.3] - Pre-printing of taxpayer's identification and basic information on return forms, or identification labels to be attached to returns, and distributing them to taxpayers in order to avoid identification errors.

[4.4] - Gradual move towards electronic returns submission and payment, just like electronic fund transfers.

*[4.5] - Computer-based checks and automatic reminders to taxpayers who fail to submit returns

[4.6] - Automatic checks for basic consistency of the information reported in returns at an early stage in the processing of returns.

*[4.7] - Further desk auditing and visit support systems.

Consideration should be given to the use of portable computers in audit visits.

*[4.8] - Computerised networks between at least headquarters and local offices should be developed, to enable computerised information exchange and internal control methods.

[4.9] - Documentary electronic data bases on substantive and procedural legislation and case law to be accessed by local enquiries, and audit sections (and eventually by taxpayers themselves).

d) Reorganisation and rationalisation of procedures

*[5.1] - Coordination with other fiscal administrations, other government departments, public enterprises should be secured for registration and audit purposes.

[5.2] - Estimated assessments should be based on realistic data.

*[5.3] - Increased use of general tax controls should be considered.

*[5.4] - Audit selection systems should allow for choice of criteria at local level, to enable the adjustment of centrally designed methods to the characteristics of the local taxpayer population.

*[5.5] - Audit selection methods should give priority to broad audit samples rather than focusing only on large traders.

*[5.6] - Audit performance criteria should be based not only on additional tax collected but also on quantity and quality of visits.

*[5.7] - Audit selection methods should be based on risk analysis techniques.

*[5.8] - Quick, preventive audits should be considered, on the one hand to demonstrate how well the administration is informed about the taxable person and on the other, to give assistance in applying VAT provisions.

*[5.9] - Diversified audit programmes should be considered focusing on different taxpayer groups and types of presumed irregularity:

- all-round searches to check for registration of small businesses within a district or sector.

- selective audits on new businesses focusing on repayment claims,

- selective audit methods on large traders focusing on tax avoidance.

- highly agile local audit teams to check specific presumed irregularities, as a complement of standard audits

*[5.10] - Special units should be set up and improved investigative techniques devised in order to combat organised fraud cases, or those related to criminal organisations. These units should work in close coordination with other administrations.

*[5.11] - Standardised guides to audit visits (including checklists, basic briefing material, and standard reports) should be produced.

*[5.12] - Internal control systems and cost accounting methods should be devised to enable effective allocation of resources within the tax administration.

e) Staff training

*[6] Training programmes should be oriented towards enabling officials to perform the tasks they will be entrusted and to keep them abreast of changes in the legal and business environment. More in particular

[6.1] Besides introductory training -which should be practice-oriented - permanent training cycles should be organised at all levels.

[6.2] - Seminars or courses should be organised on a regular basis or each time major legislative changes are introduced to let staff learn about and familiarise with the changes.

*[6.3] - Audit staff should be trained in business awareness so that they can understand how businesses operate and the commercial pressures involved.

[6.4] - Training programmes should also include courses on:

- Community VAT legislation and basic institutions,
- Taxpayers' rights,
- *- Fraud prevention techniques,
- *- Computer systems,
- New communication methods.

[6.5] - Secondments of staff to large companies or other MS tax administrations could be considered.

The above-listed suggestions can be 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 coordination
- between tax services within and cross Member States

7. CONCLUSIONS AND FOLLOW UP

All MS VAT administrations are confronted with a changing, often more difficult, environment (increasing number of taxpayers, sophistication of taxpayers' management systems and computerisation, budgetary constraints), although the mission of collecting and controlling VAT may face more difficulties in some MS than in others.

Moreover, the abolition of fiscal frontiers as from 1993 will increase the need for modification of existing procedures, increased transnational cooperation, and a greater effort to help taxpayer to adapt to new obligations.

In all MS VAT administrations are engaged in a process of improvement to remain up to date and improving the efficiency and effectiveness of the procedures they presently apply. This process of improvement has resulted in each MS administration developing a number of arrangements which are worth considering for application in some other MS.

The Commission is determined to see to it that the highest possible, equivalent, levels of efficiency in the collection and control of VAT are implemented across the Community so as to ensure that the financial burden of Community policies is fairly distributed and that competition conditions prevail.

The Commission can promote these improvements by:

- facilitating the transfer of relevant documentation and know-how amongst MS VAT administrations;
- examining the experiences of MS and, where appropriate, of other non-Community countries and bringing to the attention of MS concerned, those initiatives that, in the opinion of the Commission, could result in improving their current procedures, and, upon request of the MS concerned, by helping in their implementation;
- organising, and helping MS organise, research and discussion activities that can contribute towards the improvement of MS's and Commission's knowledge of issues relevant for effective collection and control procedures.

To this end, the Commission proposes the following workplan for the three coming years:

1. Member States will communicate regularly to the Commission the changes to and results of their collection and control procedures (including specific measures against fraud).
2. The Commission will make regular reports to the Member States on the salient features of the changes referred to in point 1 above.

3. The Commission, in agreement with the MSs concerned will distribute specific documentation and information received from MSs concerning such procedures that in the opinion of the Commission could contribute to improvements in other MSs.

4. The Commission will hold regular meetings with MSs administrations to consider, together with the MS concerned, the measures implemented following the suggestions of the Commission and those that could contribute to further improvements.

5. In view of the need to protect the Community own resources and to provide for closer co-operation between the fiscal authorities of Member States and to allow a complete understanding of the procedures and practices of Member States, the Commission will consider the organisation where necessary, of seminars for VAT officials on issues relevant to the improvement of the abovementioned procedures, and support similar initiatives taken by MSs themselves.

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TABLES AND ANNEXES

Table 1.1.a)

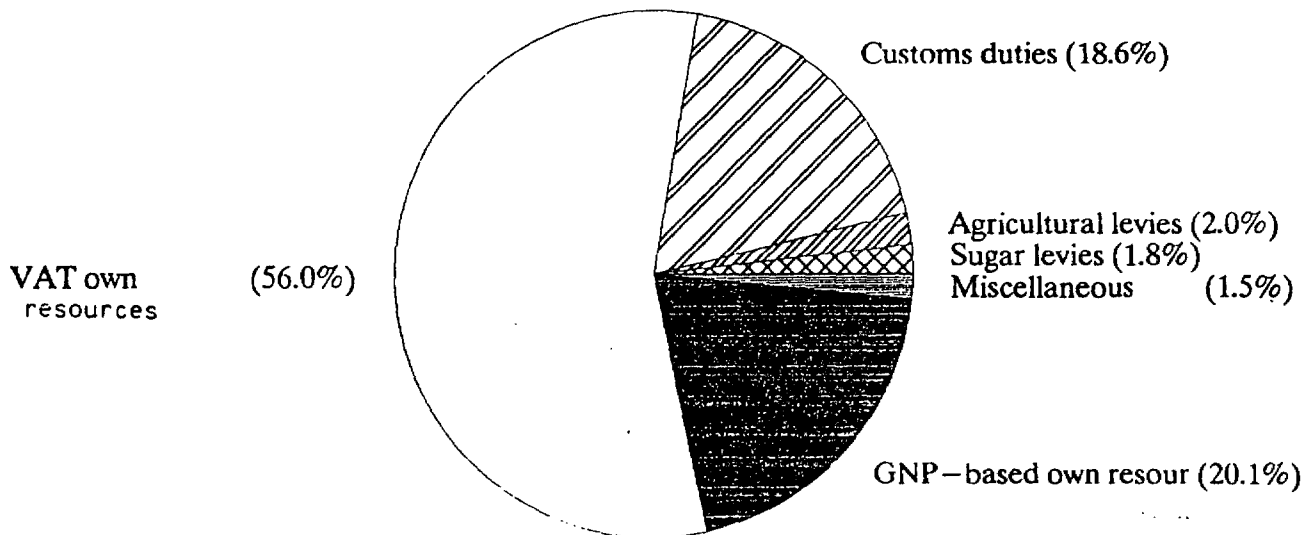
VAT in the Community and the member States

Community revenue

	1988 %	1990 %	1992 %
Sugar and isoglucose levies	3.22	2.66	1.78
Agricultural levies	3.34	2.21	1.94
Customs duties	19.98	24.19	18.53
VAT own resources	55.61	60.59	55.64
GNP-based own resources	-	14.6	20.01
Miscellaneous revenue	0.99	9.51	1.51
Revenue to balance the budget	16.54	-	-

Source: E.C. Commission

Community revenue in 1992



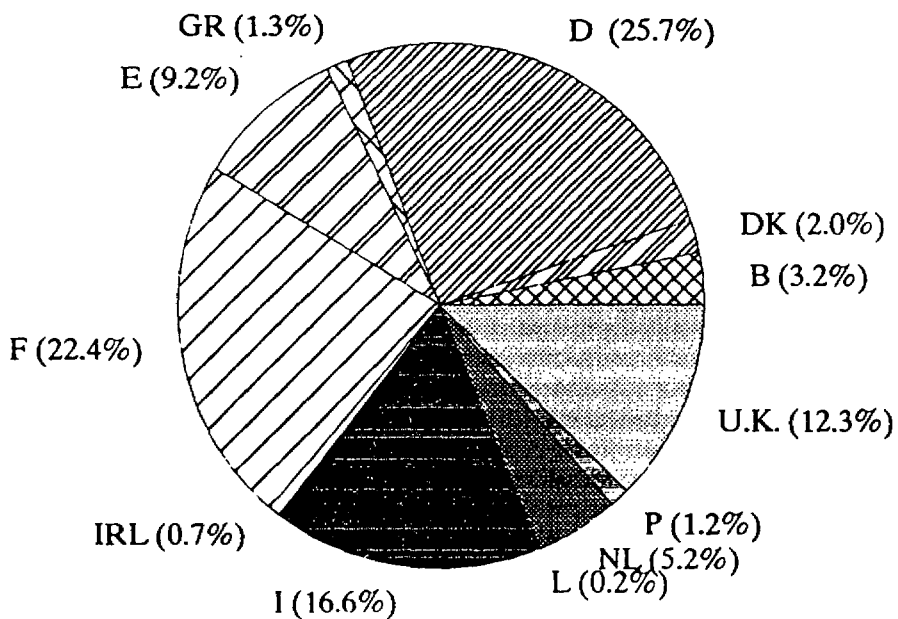
VAT OWN RESOURCES BY MEMBER STATE (1988-92) ecu million

	1988	1989	1990	1991	1992
B	810.60	840.00	910.42	1022.56	1108.10
DK	553.00	581.00	581.00	608.86	617.96
D	6855.85	7051.73	7298.20	8736.80	10183.22
GR	285.60	322.00	372.40	469.14	508.78
E	1986.60	2126.87	2617.96	2977.30	3533.26
F	5843.60	6058.24	6356.33	7083.31	7508.13
IRL	177.38	181.34	204.53	231.17	248.30
I	3953.60	4284.00	4725.00	5215.00	5278.00
L	59.22	59.43	59.31	68.86	79.29
NL	1332.80	1367.95	1465.26	1609.14	1700.69
P	211.55 *	279.64	332.27	391.96	469.93
U.K.	2059.53	3066.91	3509.26	1841.83	3600.90
TOTAL 12	24129.33	26219.10	28431.92	30255.93	34836.55

* In 1988 Portugal paid a financial contribution instead of VAT own resources

Source: EC Commission

VAT own resources by Member State in 1992



VAT revenue as % of GDP
and as % of total tax revenue
in the Member States

1988

	Total tax revenue ecu billion	VAT revenue ecu billion	VAT as % of total tax revenue %	VAT as % of GDP %
B	58.69	9.49	16.2	7.3
DK	47.42	8.64	18.2	9.5
D	380.64	59.43	15.6	5.8
GR	15.95	3.57	22.4	8.1
E	95.74	15.7	16.4	5.4
F	356.76	69.07	19.4	8.6
IRL	11.41	2.36	20.7	8.6
I	260.69	39.56	15.2	5.6
L	2.76	0.39	14.1	6.1
NL	93.07	15.39	16.5	8
P	12.21	2.47	20.2	7
U.K.	259.48	42.75	16.5	6.1
TOTAL 12	1594.82	268.82	16.9	

Source: OECD : Public revenue statistic

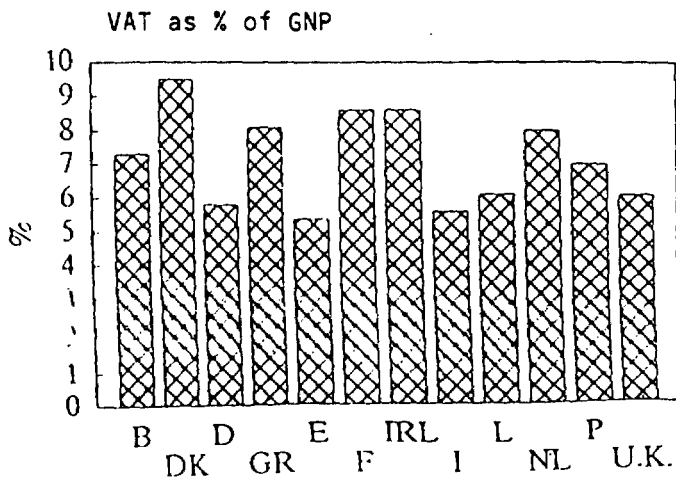
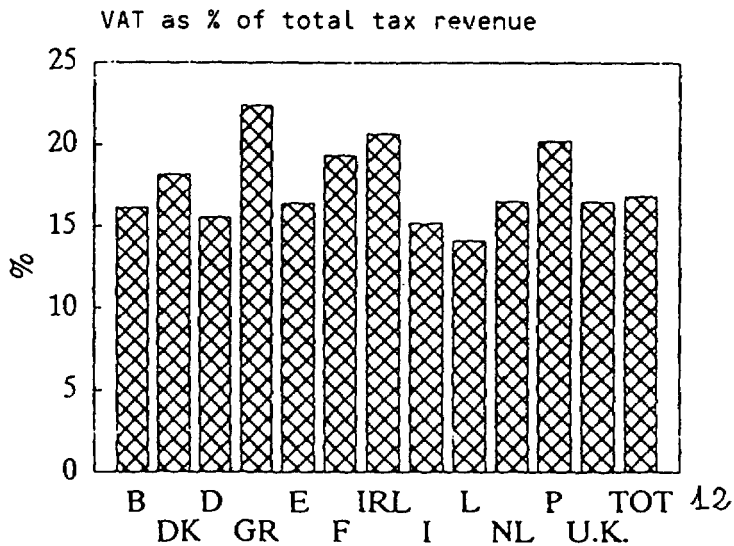


Table 2.2.1.a)

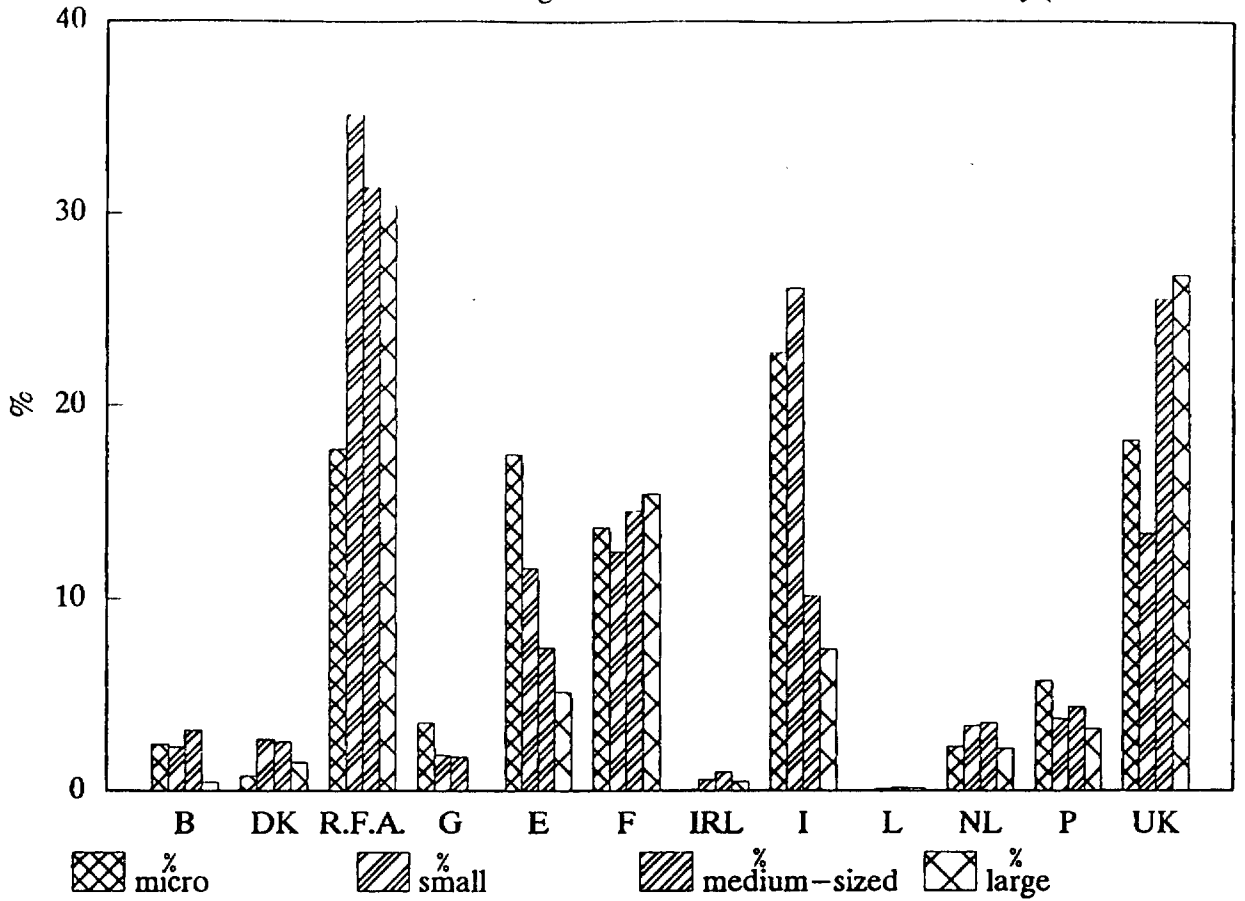
Number of taxpayers

	Standard system (thousand)				Flat-rate systems (for farmers, etc.) (thousand)		
	1986	1987	1988	1989	1987	1988	1989
B		477.4	496.5	515.6	105.6	102.1	100
DK		279.4	284	288.8	115.2	112.8	111
D	1 929.9	2 021.8 (= total taxpayers)					
GR		135.7	99.2	100.2 (number of new taxpayers)			
E		2 100.1		2 060.4	1 413.5 1 461		
F		2 365.2	2 432.8	2 517.8	461	465.7	473
IRL		118,2					
IT		5 286.9	5 415.7 (= total returns)				
L		17.8	18.6	19.3			
P-B		500	519	541 (= total taxpayers)			
P		594.4	704.6	813 (= total taxpayers)			
R-U		1 540	1 605.8	1 690.2 (= total taxpayers)			

(Source : EC Commission Questionnaire)

Table 2.2.1.b)
Size of businesses

Micro, small, medium-sized and large businesses in each country as a % of total micro, small, medium-sized and large businesses in the entire Community (industrial sector)

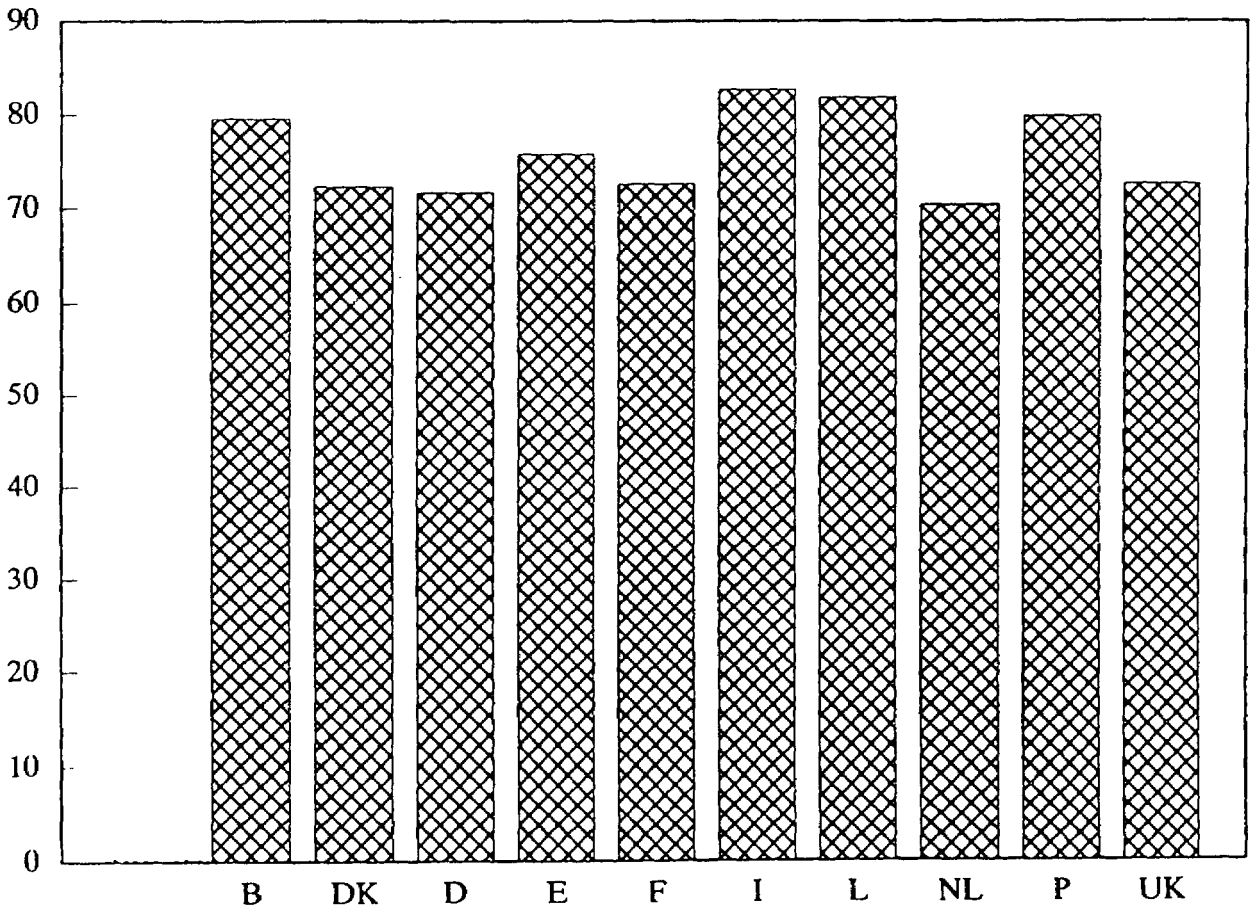


SECTORS OF ACTIVITY

	Number of businesses	of which in "sensitive" sectors	% of total in "sensitive" sectors
--	-------------------------	---------------------------------------	---

B	434191	345621	79.60
DK	155071	112157	72.33
D	2156919	1544799	71.62
GR	122636	N.A.	
E	1832987	1389108	75.78
F	2019608	1467193	72.65
IRL	4644	N.A.	
I	3161695	2614785	82.70
L	12038	9850	81.82
NL	541446	380587	70.29
P	647935	517430	79.86
UK	2355888	1710687	72.61

% of total in "sensitive" sectors



Note: "Sensitive" sectors = Services
+ Civil engineering and building
- Financial institutions and
business services

KEY TO TABLES 2.2 b) and c)

SOURCE: Statistical Office of the European Communities
EC Survey of businesses in the European Community
(forthcoming)
1986 data

DEFINITIONS: Industry: NACE Divisions 1-5, namely:

- *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
- *Building and civil engineering

Services = NACE Divisions 6-9, namely:

- *Distributive trades, hotels, catering, repairs
- *Transport and communication
- *Banking and finance, insurance, business services, renting
- *Other services

SIZE:	for industry and service sectors	Micro	0-9 employees
		Small	10-99 employees
		Medium-sized	100-500 employees
		Large	over 500 employees

DK 1985 data
E No breakdown between medium-sized and large businesses
G 1984 data; no data for service sectors
IRL no data for service sectors
L 1985 data
NL 1988 data
P 1987 data

Table 2.2.2.a)

THE ADMINISTRATIONS

Functional structure

Summary table of administrative structures adopted by Member States

Member States where all matters
relating to VAT are handled by
the same administration

UK, IRL, DK, GR, P, L

Member States with two separate
administrations for VAT

B, E, F, NL, I

(Source : EC Commission)

Table 2.2.2.b)

Human resources. Employment and training

	2a) Overall total				Specific initial training			
	2a) General administrative duties				General training			
	2b) General control duties				Advanced training			
	2c) VAT inspection				Length & rules			
B	6 298 (04/90)	4 566 (± 3 500 VAT)	1 732		X	X	X	Not communi- cated (n.c.)
DK	4 590 I D			980		X	X	Being reorgani- sed (4 and 3 years depending on function)
D	104 393 (1988)		11 000	760		X	X	according to federal law 3 years for inspectors
GR	11.500						X	periodically
F	80 624 (DGI) 19 284 (Cust) 99 908 *	3 381	15 903	agents A/B	X	X	X	30/122 hours 20/127 hours
E	5 281		Cust. 2 645	2 281		X		n.c.
IRL	286	140 (VAT)	Customs: around 1 034	146	X			16 weeks (over a period of 24 months)
IT	6 000 VAT offices 17 000 Guard. di Finanza (VAT)	4 500 (VAT)		1 500 VAT offices + 17 000 G. di Finanza	X	X	X	*courses*+trai- ning 1 to 4 y. for G. di F. + Tax Police Sch.
L	230	96 (VAT)		74	X			n.c.
NL	3.195 (VAT)	1.595 (VAT)	1.230 (VAT)	420 T		X		3 years course, incl. 6 months VAT (speciali- zed training)
P	650 (+1 174 man ¹ /yrs)	600 + 565 man/yrs	734 man/yrs	50 (+183 man/ yrs ¹)	X ¹			¹ for those not qualified in accountancy
UK	5 604 specific complem.	6 231 man/ yrs		5 953 5 583 m/yrs	X		X	around 9 months
TOTAL	228.851			11 684				

* not included in the total

(Source : EC Commission Questionnaire)

Table 2.2.2.c) EXTENT OF COMPUTERIZATION

	B	DK	D	GR	E	F	IRL	IT	L	NL	P	UK
REGISTRATION OF TRADERS (1)	C/R		R/L		C/R/L	R/L	L	C		C	C	
COMPUTERIZED PROCESSING OF RETURNS (2)	C		R		L	R/L (*)	C	-		C	C	
PERSONALIZATION OF RETURN FORMS (3)	C		-			R/L	C	C		C	C	
LIST OF TAX PAYMENTS BY BANK TRANSFER (4)	C		R			-	-	C		C	-	
CONTROL OF BANK REMITTANCES TO TREASURY OR CENTRAL BANK	-		-		L	R/L	C	C		-	C	
COMPUTERIZED CONTROL OF MISSING RETURNS (5)	C		R		L	R/L	L	C		C	C	
SELECTION OF TRADERS TO BE CONTROLLED (**)	-		R (**)		C/L	-	L	C		L	-	
CONTROL OF VAT REPAYMENTS	C (****)		R		L	-	C	C		L	C	
CONTROL OF INPUT TAX CREDITS	-		R		L	-	C	C/L		-	-	
CONTROL OF PENALTY PAYMENTS	C		R		L	R/L	C			C	-	

LEVEL

C = CENTRAL
R = REGIONAL
L = LOCAL

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- (1) Identification of traders (personal particulars, name of firm), by economic category, etc.
- (2) Printouts of traders on the basis of particulars in the returns, with computerized calculation of the tax due.
- (3) Forms which are pre-printed or personalized with pre-printed adhesive labels bearing name, address, VAT number and economic sector and sent to traders.
- (4) Entry in the accounts of payments by bank transfer.
- (5) Identification of persons who have not presented an entry and automatic despatch of a reminder or demand.
- (*) F Production of documents named "calculation error" sent to both tax offices and the taxpayer, where the return shows anomalies (computation or credit error).
- (**) D Choice for purposes of a special VAT audit.
- (***) B Audit selection is computerised. Audit, properly speaking, includes in principle an on-the-spot visit to the taxpayer.

ANNEX 3

**LIMITATIONS CONFRONTING MEMBER STATES' AUTHORITIES
IN THE PERFORMANCE OF THEIR CONTROL TASKS**

BELGIUM

The VAT, Registration and Public Estates Administration is confronted with physical and legal limitations in the performance of its control tasks.

The physical limitations derive essentially from the number of control officers and their technical skills.

As part of the Belgian Government's bugetary policy of restricting public spending, staff recruitment has been limited. At the same time the number of taxable persons has increased (see reply to Question 11).

These facts have combined to reduce the frequency of controls and at the same time to increase the volume of administrative work involved in handling taxpayers' files.

In addition the technical skills of control staff must be updated and improved to keep pace with the constant change in tax legislation and business management methods.

These limitations are further accentuated when the taxpayer:

- carries out a large number of transactions requiring a great many verifications;
- has a complex administrative and accounting structure requiring special study of the parameters used;
- is part of a group of companies, which means that there must be stricter control of the of the authenticity of transactions with the other companies in the group;
- uses sophisticated management methods demanding technical knowledge to understand the functioning and to spot manipulations and errors.

The legal constraints derive from:

- the time limit for controls;
- the restricted right to conduct on-the-spot inspections;
- the way in which information can be obtained and used;
- the documents and registers which taxpayers can be required to produce;
- banking secrecy;
- means of proof which may be used.

DENMARK Businesses to be controlled are selected by application of the criteria "economic importance" and "risk of fraud". Selection is not therefore based on a concrete appraisal of the overall situation of businesses. cf reply to Question 53 on businesses always claiming a tax credit.

GERMANY Control activities are limited by the staff complement of the control departments and by the fact that the selection of the businesses to be controlled is left to the judgment of the controllers. The taxation administration provides for a full verification of all tax periods only for large businesses. In smaller businesses the verification covers only the last three tax periods. Otherwise there are no objective limitations to control tasks.

GREECE The point of the question is not clear.

SPAIN Preparatory work is currently in progress for the establishment of the State agency for tax administration, which should improve the organic aspects of management and control of these taxes on the basis of a model focusing on effectiveness. This agency will also provide additional resources for the performance of these tasks.

At the same time work has begun on drafting rules that will ensure more effective performance of the control tasks undertaken by the inspection services.

FRANCE The limitations confronting tax authorities as regards control duties are certain fraudulent practices such as the disappearance of traders when controls are announced, the organization of insolvency, the transfer of evaded funds to accounts abroad of which the tax authorities have no knowledge and the use of undeclared workers.

There are also time limits on controls:

- the small business arrangements (turnover below FF 3 million for sales or FF 900 000 for services) do not allow verifications to exceed three months;
- the face-to-face examination of the personal tax situation of a taxpayer (detailed control of a person's income) may not cover a period of more than one year.

IRELAND All Branches of Revenue are constrained by limitations of staff resources.

ITALY No reply

LUXEMBOURG The essential factor curbing the desire of the tax authorities to step up control work is the chronic shortage of staff.

NETHERLANDS One problem influencing the length of inquiries is the time taken to obtain information from foreign tax authorities. Faster procedures would make for improvements in inquiries from both the quantity and quality angles.

PORTUGAL The main limitation confronting the tax authorities in their control duties is the existence of virtually inviolable banking secrecy.

UNITED KINGDOM The control programme must be conducted within the limitations of manpower and financial resources allocated for control purposes. In order to maximize the efficient use of these resources, sessional values for control visits are centrally allocated to all but the largest traders, on the basis of the perceived risk posed by the individual trader. The sessional time allocations vary from 12 sessions per annum to 1 session every 10 years (1 session being half a day). The allocation of control time to large traders is determined at local level, outwith the central system.

These time constraints mean that it is not always possible to carry out a full audit on every control visit. Current control policy is that the first visiting officer should analyse risk areas for each trader and examine some of them. Subsequent control officers should review the risks and carry out more credibility checks. The aim is to examine all risk areas over a number of control cycles.

The issue of assessments for underdeclared tax is subject to statutory time limits after the discovery of the relevant facts. There is also an overriding time limit of 6 years, or, in cases of fraud - and with the authority of a Tribunal or Court - 20 years, beyond which assessments may not be raised.

In cases where a trader has been given an incorrect ruling by the department (misdirection) the department may only seek to recover tax based on the correct ruling from the date the error was brought to the attention of the trader.

Table 3.1.a)

LIST OF VAT RATES APPLICABLE IN MEMBER STATES

<u>MEMBER STATES</u>	<u>REDUCED RATE</u>	<u>STANDARD AND INTER-MEDIATE RATES</u>	<u>INCREASED RATE</u>
GERMANY	7	14	-
BELGIUM	1/6	17/19	25/25+8
DENMARK	-	22	-
SPAIN	6	12	33
GREECE	4/8	18	36
FRANCE	2, 1/5, 5/13	18, 6	22
IRELAND	2, 3/10/12, 5	21	-
ITALY	4/9	19	38
LUXEMBURG	3/6	12	-
NETHERLANDS	6	18, 5	-
PORTUGAL	8	17	30
UNITED KINGDOM	-	17, 5	-

Source : EC Commission

Table 3.1.b)

 *
 * LIST OF VAT RATES GENERALLY APPLIED IN THE *
 * MEMBER STATES TO CERTAIN *
 * GOODS AND SERVICES *
 *

GOODS AND SERVICES	BE	DA	DE	ESP	FR	HE	IRL	IT	LUX	NL	POR	UK
Food	6/19	22	7	6	5,5	8	0/21	4/9	3/6	6	0/8	0
Drink :												
- Spirits	25	22	14	12	18,6	18/36	21	19	12	18,5	8/17/30	17,5
- Wine	25	22	14	12	18,6	8/18	21	9	6	18,5	8	17,5
- Beer	19	22	14	12	18,6	18	21	19	12	18,5	8	17,5
- Mineral water	19	22	14	6	18,6	8	0	19	12	6	8	17,5
- Lemonade	19	22	14	6	18,6	8	21	19	12	6	17	17,5
- Fruit juice	25	22	14	6	18,6	8	21	19	6	6	17	17,5
Clothes												
Adults	19	22	14	12	18,6	18	12,5	9	12	18,5	17	17,5
Children	19	22	14	12	18,6	18	0	9	12	18,5	17	0
Shoes												
Adults	17	22	14	12	18,6	18	12,5	9	12	18,5	17	17,5
Children	17	22	14	12	18,6	18	0	9	12	18,5	17	0
Pharmaceutical products	6	22	14	6	2,1/5,5	8	0/21	9	3/6	6	0	0
Manufactured tobacco (Popular cigarettes; VAT calculated on maximum re- tail selling price) (ex- cise duties and VAT)	6	22	14	12	22	36	21	18	6	18,5	17	17,5
Books	6	22	7	6	5,5	4	0	4	6	6	0	0
Newspapers	0	0	7	6	2,1	4	10	4	3	6	0	0
Periodicals	0	0	7	6	2,1	4	21	4	6	6	0	0
Hifi - Vidéo	33	22	14	12	22	36	21	9/19	12	18,5	17	17,5
Household electrical appliances	25	22	14	12	18,6	18	21	19	12	18,5	17	17,5
Cultural services and entertainment	6	22	EXEMPT/ 7	EXEMPT/ 6	5,5/ 18,6	EXEMPT/8	EXEMPT/ 12,5/21	9	6	18,5	EXEMPT/8	17,5
Furs	33	22	14	33	22	36	21	38	12	18,5	30	17,5
Jewels	33	22	14	33	22	18	21	19/38	12	18,5	30	17,5
Water	6	22	7	6	5,5	EXEMPT	EXEMPT	9	EXEMPT	6	0	0/17,5
Gas	17	22	14	12	18,6	8	12,5	4/9	6	18,5	8	0/17,5
Electricity	17	22	14	12	18,6	18	12,5	9	6	18,5	8	0/17,5

GOODS AND SERVICES	BE	DA	DE	ESP	FR	GR	IRL	IT	LUX	NL	POR	UK
Oil products :												
- Petrol (lead-free)	25	22	14	12	18,6	36	21	19	12 (6)	18,5	8	17,5
- Diesel	25	22	14	12	18,6	8	21	19	12	18,5		17,5
- LPG	25	22	14	12	18,6	8	12,5	19	6	18,5	8	17,5
- Fuel domestic	19	22	14	12	18,6	8	12,5	19	6	18,5	8	0
- Lubricants	19	22	14	12	18,6	18	21	19	12	18,5	17	17,5
Motor cars	25/33 (33 if > 3000cc)	22	14	33/12	22	8	21	19/38 (38 if > 2000cc petrol, 2500cc diesel)	12	18,5	17	17,5
Transport of persons	6	EXEMPT	7/14	6/12	5,5	8	EXEMPT	9/19	6	6	8	0/17,5
Hotels	6	22	14	6/12	5,5/18,6	8	10	9/19	6	6	8	17,5
Restaurant	17	22	14	6/12	18,6	8/18/36	12,5	9/19	6	6	8	17,5
Building sector :												
- Building land	OUT OF SCOPE	EXEMPT	EXEMPT	12	13	EXEMPT	OUT OF SCOPE	19	EXEMPT	EXEMPT/ 18,5	EXEMPT	EXEMPT/ 17,5
- New buildings	17	EXEMPT	EXEMPT	6/12	18,6	EXEMPT	10	4	EXEMPT	18,5	EXEMPT	0/17,5
- Construction	6/17	22	14	6	18,6	18	10	4/19	12	18,5	8/17	17,5
Works of art	6	22	7	12 (margin)	18,6 (margin or on 30% of total sale price)	8	12,5	19	6	6	17/ EXEMPT (margin)	0/17,5 (margin) (0% if import)
Antiques	6	22	14	12 (margin)	accord. category (margin or on 30% of total sale price)	18	12,5	19	12	6	17 (margin)	17,5 (margin) (0% if import)
Second-hand goods	accord. category (margin)	22	accord. category (for mo- tor cars margin)	12 (margin)	accord. category (margin or on 30% of total sale price)	8/18	21 (margin on cer- tain second- hand motor vehi- cles)	accord. category	12	18,5	17 (margin)	17,5 (margin)

Source : EC Commission.

ANNEX 4 a)

MEASURES RECENTLY TAKEN OR CONTEMPLATED BY MEMBER STATES' AUTHORITIES
TO IMPROVE PROCEDURES

Registration

- BELGIUM The VAT, Registration and Public Estates Administration has detected no major problems in the procedures for registering taxable persons or for other administrative functions.
- If difficulties were found, the necessary measures would, of course, be taken.
- DENMARK None.
- GERMANY No plans for the moment.
- GREECE Identification numbers are given only to the genuinely self-employed.
- SPAIN Computerized cross-referencing might be possible with data from other departments on grants from public funds, registers held for non-tax purposes, etc.
- FRANCE To improve the current system, there are plans to extend the VAT register to the few remaining excluded categories, such as non-profit associations, which are generally exempt from VAT.
- IRELAND A new VAT1 will be introduced shortly which will provide greater information about the applicant and will allow for a reduction in pre-registration visits while highlighting doubtful cases.
- ITALY The present system has shown no major drawbacks; it has not therefore been thought necessary to make any adjustments.
- LUXEMBOURG No new measures planned.

NETHERLANDS

The first stage of a new customer registration system - management of relations (BvR) - is to take effect from December 1990. It is broadly similar to the old one. The main difference is that registration data previously held in separate files according to the type of tax will now be in a single file, so that relations between different categories of taxable person can be established. There are or will be substantial changes in the way data are supplied and/or updated. In future, data on natural persons will be downloaded automatically from the population register to the BvR, whereas data for companies and firms will be taken from Chamber of Commerce registers. This data flow will generate comprehensive basic registration. The system also, of course, allows registration of persons who cannot be input automatically. Updating by the units responsible for it will be much quicker than in the old system. The result of all these changes will be to streamline management functions and speed up the collection and recovery of tax.

The system for registering Dutch taxable persons should thus become highly efficient. The tax departments will continue to seek and make further improvements where they are possible.

PORTUGAL

Improvements are currently being made to the Portuguese registration system by the creation of a provisional file from the national companies register, transferred on magnetic tape by the Ministry of Justice, which manages it.

UNITED KINGDOM

The registration provisions and procedures are kept under constant review.

ANNEX 4 b)

MEASURES RECENTLY TAKEN OR CONTEMPLATED BY MEMBER STATES' AUTHORITIES
TO IMPROVE PROCEDURES

Data processing

.....
BELGIUM See Annex 4.a

.....
DENMARK The Department of Customs and Taxes does not at the moment
 have any proposals for such measures.

.....
GERMANY A timetable has been established for the introduction of
 automation in the new Lander. In the long run it is
 provided that taxpayers may submit their return via
 electronic data transmission.

.....
GREECE Law No 1882/1990, recently adopted, contains the following
 measures to combat tax fraud.

As well as checks by sampling, the measures give the department leeway to carry out checks on certain businesses not included in a sample and which make returns of income clearly lower than their actual receipts. The criteria and the terms on which a sample is selected can thereby be widened to include any business of interest to the tax authorities and not already included in the sample.

Under the new arrangements, a second provisional check can be carried out if the data or information in tax returns give rise to a suspicion that they contain false information about taxable matters which was not detected in the course of the first provisional check.

The law in question also contains provision for special measures to combat fraud by certain categories of artisans and members of the professions such as electricians, contractors, plumbers, travel agencies, driving schools and garage proprietors, and the Ministry's data processing departments compare the tax returns made by those liable.

Law No 1882/1990 also confers joint liability on a taxable person to whom goods or services are supplied and who accepts fraudulent or false invoices, if it is proved that that person was a party to the writing of them.

It is as yet too early to assess the effectiveness of these measures in order to ascertain whether new measures are needed.

.....
SPAIN A possible approach would be to set "reference levels" for each taxpayer (based, for example, on average payments during the previous tax year); demands or notices could then be sent out to bring actual receipts into line with expected receipts.

This possibility has been under study for some time and will be put into effect if the approach is deemed suitable.

.....
FRANCE To improve the present system of processing of data supplied by taxpayers, computerized tax administration is being made general practice.

.....
IRELAND There are no new arrangements contemplated at present to amend the present processing system. However, the system is under constant review to increase its efficiency.

.....
ITALY No reply received.

.....
LUXEMBOURG The matter is currently being studied by the department's officials with an eye to the abolition of tax frontiers after 1992.

.....
NETHERLANDS One aspect of the reorganization under way in the Netherlands tax department involves bringing together all operations relating to the assessment and collection of the various taxes and levies on undertakings. This includes optimizing the use made of information compiled with a view to assessing and collecting the other taxes for which undertakings are liable. At the same time, to step up efficiency, endeavours will be made to ensure that a taxable person does not have to keep supplying the same information for the assessment and collection of different taxes. This should also make for improvements in the tax assessment and collecting system to secure, as far as possible, a better tax yield.

.....
PORTUGAL The fact that data keying is carried out on line holds up the processing of data stored in the computer, which can only be done at night or at weekends. There are plans to key the data into a more powerful computer shortly, so that existing data can be processed for the purposes of improving control.

.....
UNITED KINGDOM

In pursuance of its VAT Business and Information Systems Strategies produced in 1989, and as part of a rolling development programme over the next few years, the best use will be made of modern technology to enhance systems and procedures.

This includes examination of the bulk processing procedures and the manner in which accounting queries are resolved. The primary objective will be to simplify, where possible, access to data so improving information systems, for a wide range of controls.

Efficiency will be sought in:

Manual processes:	by increased use of part-time staff to deal with peaks;
	by increased automation;
Automatic processes:	by enhanced credibility checks and more detailed use of available information.

(Source : EC Commission Questionnaire)

ANNEX 4 c)

MEASURES RECENTLY TAKEN OR CONTEMPLATED BY MEMBER STATES'
AUTHORITIES TO IMPROVE PROCEDURES

Collection

BELGIUM In the future the VAT authority plans:

1. to automate the issuing of enforceable instruments, in particular those relating to the special accounts for non-payment, by linking them to data from the two Regional Information Centres referred to in reply to question 4;
2. to exploit data on bankruptcies, winding-up and composition procedures, etc. by integrating the information under the two Centres referred to above. A consolidated file from 1980 onwards will be compiled;
3. to automate fully the cash advances made to cover costs incurred by bailiffs; these public officers would be paid each week via the two Centres.

DENMARK The tax authorities currently have no plans in this area.

GERMANY When settlements are made, automatic computerized adjustment of any credits will no longer apply solely to the computerized VAT account but will also be extended to other computerized accounts (eliminating human intervention in the accounting operations in question).

GREECE See the measures indicated in reply to question 29.

SPAIN 1. A computer program (CAIN - comparison of annual declarations with payments) has been developed with the aim of checking whether the payments indicated by taxpayers in their annual consolidated VAT returns tally with the payments booked to their current tax accounts as self-assessed settlements.

The program makes it possible to identify various anomalies, in particular:

- errors in booking payments;
 - returns-assessments submitted without payment;
 - returns-assessments where bank certificates are falsified;
 - etc.
2. Another program (CIDA - comparison of payments with annual returns) allows taxpayers to be identified who should have submitted an annual return but have not done so.

FRANCE To reduce further the very small proportion of defaulting flat-rate taxpayers liable for quarterly payments, a computerized procedure was introduced in 1990 for systematically sending out reminders.

In the context of work organization, improving the time taken to process means of payment is currently regarded as a priority.

It is planned to computerize the serving of notices, which is a necessary step prior to starting any proceedings for the enforced recovery of debts due.

ITALY No reply.

IRELAND The range of enforcement options has been widened in recent years with the appointment of Revenue Sheriffs and the introduction of the powers of attachment, and apart from the recent introduction of an annual accounting scheme for traders on the lower end of the remittance scale, no further new arrangements are contemplated at present.

LUXEMBOURG The new computer programs that came into operation on 1st May 1991 substantially improve VAT recovery methods and procedures.

The following are of particular note:

- more extensive records of taxpayers' particulars;
- automatic calculation of instalments on account and administrative assessments in the event of failure to submit a declaration;
- regular dispatch of reminders to taxpayers who are in arrears with their payments;
- automatic issuing of administrative enforcement orders, with calculation of the interest on arrears, due from the date of the enforcement notice.

NETHERLANDS The Netherlands tax authorities are contemplating measures to reduce the number of cash payments made at tax offices (at the cash desk). To this end, it is planned to involve the banks so that the self-employed can make cash payments at bank counters in future. The date of payment will be the date when the tax debt is paid over the bank counter. This will make it possible - as it is at present with cash payments to tax offices - for these people to settle their tax debt as late as possible.

PORTUGAL The authorities have changed the turnover limit for monthly taxpayers so as to reduce their number and increase the number subject to quarterly assessment.

UNITED KINGDOM Since 1985 Customs and Excise has progressively introduced a range of new Civil Penalties and Surcharges that have successfully improved trader compliance and reduced the tax outstanding in real terms by half.

It is envisaged that the basic structure of the penalties will remain relatively unchanged, but there is a review scheduled for 1992.

Further delegation of authority from the centre will encourage local management initiatives.

In pursuance of its VAT Business and Information Systems Strategies produced in 1989, and as part of a rolling development programme over the next few years, the best use will be made of modern technology to enhance systems and procedures. This will include, in particular, a risk assessment mechanism and the provision of better information, sooner, to facilitate early recovery of debts.

(Source : EC Commission Questionnaire)

Table 4.1.1.

INFORMATION PROVIDED TO THE TAXPAYERS

	Toll free telephone	Videotex	Assistance to file returns	Information on discretionary powers
	-----	-----	-----	-----
B	NO	envisaged	YES	Individually
D				Through official publications or individually
DK				Individually
E	YES			Through official publications and individually
F				Individually
GR				Mass Media official publication, individually
IRL				Individually
I				Upon taxpayer's request
L	NO			Individually
NL	YES		YES	Leaflet tax forms, individually
P		envisaged	NO	Individually
UK				Leaflet

Source : OECD and EC Commission

Tableau 4.1.2.

Documents officiels définissant les droits du contribuable

Pays	Charte ou déclaration des droits du contribuable	Autres
Belgique	Oui	Charte du contribuable (1987)
Danemark	Oui	Déclaration des droits du contribuable
France	Oui	Liberté d'accès aux documents administratifs (loi de 1978). Motivation des décisions administratives (loi de 1978). Charte du contribuable soumis à vérification
Allemagne	Oui	Vade-mecum du contribuable soumis à vérification
Grèce	Non	-
Irlande	Oui	Charte du contribuable
Italie	Non (envisagé)	-
Luxembourg	Non	-
Pays-Bas	Oui	Loi de 1987 sur l'accès des citoyens aux informations officielles Statut du contribuable
Portugal	Non	Guide des droits du citoyen (à publier)
Espagne	Oui	Droits et obligations du contribuable soumis à vérification
Royaume-Uni	Oui	Charte du contribuable (1986)

Source : OCDE et Commission des CE

ANNEX 4.1.2. a)

ESKORT

COMPUTER-GUIDED AUDIT EXPERT SYSTEMS

1. A problem common to tax authorities is the increasing demand by local and central government for greater efficiency and productivity and hence more income for the State's exchequer.

The techniques of artificial intelligence in general and expert system technology in particular are well suited to the solution of this problem.

The original objective of the Danish ESKORT project, which began in 1985, was to build an expert system to support the VAT auditing and control process.

2. ESKORT is designed as an integrated system comprising a number of different modules to support every phase of a Tax Department's work in controlling (auditing) the validity of submitted returns.

Basically the control process entails the following :

- collection of information,
- reconciliation or simple analysis,
- account analysis - identification of errors and idiosyncracies,
- system analysis,
- transactions analysis or analysis of errors,
- preparation of the audit report.

3. Since its definitive introduction throughout Denmark in March 1989, ESKORT has resulted in the following benefits :

- increased state revenue,
- increased productivity and effectivity in auditing and control,
- increased quality of auditing and control,
- more uniformity in auditing and control,
- better service to commerce and industry,
- higher motivation and greater satisfaction of staff,
- savings in Control Budget and increased service level.

4. The Dutch VAT administration have acquired the ESKORT system and developed a Dutch version of it.

TAXPAYER'S CHARTERS

Public administration and civil servants must serve the best interest of their nation and must therefore be perceived not only as an "authority" but first of all as a "service" to the citizen.

Reducing the administration's role to the mere aspect of authority is dangerous inasmuch as it can engender the feeling that a taxpayer can only be granted favours and not obtain the satisfaction of rights arising from precise obligations on the part of the civil servants. This feeling in turn can in some cases generate corruption, lead to degradation of public opinion's view of the public administration and thus reduce compliance.

Furthermore, the tax administration may better accomplish their role if information to the public is clear and correct.

As a means of improving the public administration's image of commitment to service, several MS have issued an official "charter of rights of the taxpayer" or more specific "taxpayers' vademecum for tax controls".

1. General taxpayers' right charters

These charters have been issued in B,DK,IRL,NL,UK (A project exists also in I), characterized by a very brief and concise presentation, focus in particular on the taxpayer's right to

- a) Information
the right to be informed about tax law and about entitlements and obligations arising from it.
- b) Minimum compliance costs
the right to expect that civil servants and their staff recognize the need to keep to the minimum necessary the costs the taxpayer occurs in complying with tax laws.
- c) Courtesy and consideration
the right to be treated respectfully by the Public Administration in all circumstances.
- d) Privacy and confidentiality
the right to expect that personal and business information provided will be treated in strict confidence.
- e) Impartiality
the right to expect impartiality on the part of civil servants in dealing with taxpayers' affairs.

2. Taxpayer audit guides

In E, F, D the Public Administrations have issued a more limited document, distributed to all the taxpayers that are subject to an audit by the fiscal authorities. These documents take the form of "vademeccums", explaining to the taxpayer the procedure of the fiscal control, and all entitlements, rights and obligations arising from it.

Although these are informative documents, and not - like the ones discussed above - enunciations of rights, they nevertheless emphasize the taxpayer's right to :

- a) Information
- b) Presumption of honesty
the taxpayer is presumed to have dealt with his tax affairs honestly, unless there is reason to believe the contrary.
- c) Independent review
the taxpayer has a right to recur against a decision taken by the Public Administration, if he thinks the law has been incorrectly applied or the facts have been misinterpreted.
- d) Assistance
the taxpayer has a right to be assisted or represented by lawyers or consultants in any phase of the audit.
- e) Privacy and confidentiality.

It will be noted - as a last remark - that the distribution of this document is compulsory in France and Germany , but not in Spain. Furthermore, while France and Spain issued long documents (15-20 pages) characterized by a simple, didactical prose, Germany issued a shorter and more technical paper, possibly on account of the widespread recourse to lawyers and fiscal consultants during audit visits.

As a consequence of the distribution of the document, the French tax administration have observed an increase of the number of recourses on the part of small taxpayers, thanks to their better knowledge of their rights.

Table 4.2.1.

Number of returns

	TOTAL	of which yearly	of which quarterly	of which monthly	other specifications
B	ca 2.2 mio	ca 60 000	ca 1.37 mio	ca 787 000	
DK	ca 1.46 mio				of which 220 000 agricultural enterprises and 1.25 million urban enterprises
D	ca 18.95 mio		ca 2.65 mio	ca 16.3 mio	this figure does not include yearly summary returns
GR	ca 4.870 mio	670 000			of which some 4.2 millio definitive & 670 000 provisional (1990)
ESP	ca 9.5 mio		ca 7.6 mio		of which some 1.9 million definitive and 1.9 provisional
F	ca 18 mio				of which 9.5 million simplified returns and 8.5 normal returns
IRL	514 000	n.c.	500 000	14 000	annual returns introduced in 89-90 (data not yet available)
IT	ca 5.33 mio				of which 2 million standard returns, 2 million forfeit returns & 380 000 agricultural enterprises
L	ca 86 000	ca 3 600	ca 53 000	ca 30 000	calculated on the basis of stated corresponding submitters
NL	ca 3 mio	ca 50 000	ca 1.2 mio	ca 1.8 mio	
P	ca 2.4 mio		1.46 mio	936 000	
UK	ca 6.6 mio				of which 2 million simplified returns & 400 000 specific returns (second-hand purchases)

(Source : EC Commission Questionnaire)

ANNEX 4.2.1.

Control instruments

- B : - listing of VAT repayments
- summary listing of returns data
- list of the annual program of control
- list of detected irregularities
- listing of suppliers/customs
- listing of imports
- taxpayer register

- DK : - data are kept in a file that can be accessed by regional units
- lists are grouped by return category (repayments and others)
- computerized system of selection for control purposes
- reports of control activity
- statistical reports

- D : - information reports for control officers' use

- GR : - in case of errors or irregularities, returns are sent back to the incumbent office

- E : - list of irregularities or errors
- list of non submitters
- computerized cross-check between annual summary returns and payments

- F : - list of late submitters
- procedural documents

- IRL : - computerized calculation of VAT totals and VAT credits
- annual synoptical tables
- cross checks between VAT turnover and personal income tax returns

- I : - returns control tables
- omitted payments

- L : - list of late submitters (returns)

- NL : - listing of VAT company register
- report on selected declarations
- report on data processing
- report on consistency between returns and payments

- P : - ad-hoc application of control procedures

- UK : - more than 2 000 statistical and control listings

(Source : EC Commission Questionnaire)

Table 4.3.1.

REGISTRATION

Member State	REGISTRATION NUMBER				CONTROL ACCESS		
	Certificate issued	VAT	Composition of number	Comments	Central base	On line facility	Comments
1. B	NO	YES	9 digits	1. status identifier: private individuals corporate body 2. regional identifier 3. control digits	YES	YES	Centre de Traitement de l'information - Brussels
2. DK	YES	YES	7(+2) digits 8(+2) digits	1. VAT only (pre 1.5.90) 2. Integrated fiscal member from 1.5.90 3. regional identifier- additional undisclosed digits	YES	YES	Ministry of Taxation. Central Customs & Tax Administration Copenhagen
3. D	YES	NO	10 digits	1. notification letter 2.a) fiscal office number b) regional identifier c) taxpayer's identifier	NO	NO	Central Database In each Land (11)
4. GR	YES	NO	8 digits	1. Integrated Identifier 2. status identifier	YES	NO	Ministry of Finance Athens (Local offices receive annual alpha lists of all traders)
5. F	YES	NO	15 digits	1. Integrated fiscal number 2. terminal control digits 3. regional identifier	NO	YES	Central Database In each region (17)
6. IRL	YES	YES	7 digits + alpha character	1. terminal control character 2. special arrangement for groups	YES	YES	Office of Collector General - Dublin

Member State	REGISTRATION NUMBER				CONTROL ACCESS		
	Certificate issued	VAT	Composition of number	Comments	Central base	On line facility	Comments
7. I	YES	YES	11 digits (VAT only)	1. private Individuals (fiscal number = 16 digits) 2. corporate body (VAT number = fiscal number) 3. control digits	YES	YES	Archivio Anagrafico - Rome
8. L	YES	NO	11 digits	1. Integrated fiscal number 2. different composition for private Individuals and corporate bodies	YES	YES	L'ordinateur de la sécurité sociale Luxembourg
9. NL	YES	YES	9 digits + alpha character	1. status Identifier 2. fiscal purpose Identifier (e.g. B=BTW= TVA)	YES	YES	Central Administration - Apeldoorn
10. P	NO	NO	9 digits (+)	1. Integrated fiscal number 2. terminal control digit (+) corporate bodies	YES	YES	Service Central de TVA - Lisbonne
11. E	YES	NO	8 digits + alpha character 9 digits	1. certificate issued on demand 2. Integrated fiscal number private Individuals corporate bodies: a) status Identifier b) regional Identifier c) control digit	YES	YES	Le Ministère de l'Economie et des Finances - Madrid
12. UK	YES	YES	9 digits	1. terminal control digits 2. special arrangement for groups 3. branch Identifier	YES	YES	VAT Central Unit Southend-on-Sea

Annex 4.3.1.

TAX IDENTIFICATION CODES IN SOME MEMBER STATES

Spain

From 9 March 1990, all natural and legal persons must have a "numéro d'identification fiscal" (tax identification code) which must compulsorily be used in :

- all contacts with tax administrations;
- any act having fiscal relevance and in particular :
 - invoices and commercial documents;
 - employment contracts;
 - all banking, financial or stock exchange operation;
 - documentation concerning real property.

The stated goals of this initiative are two-fold:

- to promote a more efficient management of the information available to the fiscal administrations by pooling together all information regarding particular taxpayers ;
- to collect additional information about (potential) taxpayers in order to curb fraud.

These new rules provoked a sustained debate in Spain upon their introduction, as some jurists considered that they conflicted with a constitutional principle (art. 18) that limits the use of information gathering in order to protect privacy, but have by now been accepted

Italy

The Italian "codice fiscale" introduced in the 1970's with the same objectives has been integrated into a more complex network called "sistema informativo anagrafe tributaria", and has therefore a wider scope than the Spanish "numero de identificación fiscal".

In the first place, a wider range of acts are considered to be "of fiscal relevance", and therefore require a "codice fiscale", in particular :

- all contacts with Public Administrations (not only tax administration , but also S.S.N. (National Sanitary Service), social security administration, local government, etc.);
- new electricity and telephone contracts;
- insurance contracts.

Furthermore, the information collected by the Fiscal Administration is available, within the limits imposed by the right to an individual's privacy, to various users :

- the data in the Anagrafe Tributaria are exploited by the Guardia di Finanza in their activities intended to curb fraud :
- the National Statistics Institute can access aggregate data available for economic research;
- the Ministry of the Interior can access the data in their fight against the Mafia;
- the information regarding real property is also available to the public through terminals (an initiative that has been particularly appreciated by banks, notaries, and various other professionals).

Portugal

First introduced for legal persons only (1979) the tax identification code was later extended to natural persons (1989), but its use is limited to contacts with the tax administration.

Through an appropriate use of the first two figures of the code, it is possible to identify the taxpayer's activity in broad categories (natural person, individual entrepreneur, regular, or irregular societies, public administrations, non-residents, etc.).

This allows the immediate availability of listings of taxpayers, in broad categories, at both regional and national level, providing a useful tool for controls by tax administration.

It must nevertheless be noticed that introducing detailed information about economic activity or geographical location in the code itself can be dangerous because it compels tax administration to modify the code upon every chagement in these data.

Any detailed information should therefore be contained like in the Spanish and Italian systems, in the file that corresponds to any given taxpayer's code.

ANNEX 4.3.2.

THE SPANISH TAX AGENCY

The 1991 Tax Law created a public agency that will take over collection and control for all national taxes and those for which these functions have been delegated to the central government by either regional governments or the Community.

It will also be assigned the responsibility for administrative cooperation with other MS tax administrations.

The agency will take over the collection and control departments of the Ministry of Finance, and may also absorb their staff and premises but will be allowed more flexibility in its recruitment and salary policies than that currently allowed in general public administration. The agency is also empowered to create or participate in private companies related to its mission.

It will finance itself mainly from commission's on gross tax collections and from budgetary transfers, and its budget will be approved by the Government, that will also decide yearly on the commission rate.

Its President and its Director General will be appointed by the Government (with rank of Secretary of State and Director General respectively).

Furthermore a new police unit is created to assist the agency in investigating and combatting fraud.

The agency will be operational in early 1992.

Table 4.3.3.a)

**AVERAGE DURATION AND NUMBER OF INSPECTORS
TAKING PART IN EACH CONTROL OR INSPECTION**

	CONTROLS OF RETURNS		VAT CONTROLS		VAT INSPECTIONS		GENERAL INSPECTIONS		OTHER CONTROLS	
	Average duration	No of inspectors	Average duration	No of inspectors	Average duration	No of inspectors	Average duration	No of inspectors	Average duration	No of inspectors
B	1 D	1	1 D	1/2	1 D/+D	1/2				
DK										
D	1 D	1	+ D	1	+W/+M	1	+M/+Y (1)	1 (2)	+M/+Y	1/2 (3)
GR										
E	1 D	1 - 3 (4)					+W	2		
F	1 D/+D	1					+D/+M	1		
IRL			1 D		1 D	1/2	+ D	1		
IT	1 D	1	1 D/+D	1	+ D	2	+D/+W	3/3+		
L										
NL	1 D	1	+ D	1	+ D	1	+D/+W/+M	1/2		
P			1 D	1/2	1 D/+W	1/2			1 D/+D	1/2
UK										

Average durationNumber of inspectors

1 D = one day

1 = 1 inspector

+ D = several days

2 = up to two

+ W = several weeks

3 = up to three

Y = 1 year

3 += more than three

+ Y = more than one year

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- D (1) Depending on size of entreprise.
- D (2) Normally one controller, for very big audits there may be several controllers.
- D (3) Important inspections/seicure are made by more than 3 officials, the follow up (evaluation) is done by normally one to two officials.
- E (4) Depends on whether errors are detected at the first check.

Table 4.3.3. b)
Audit visits results

	Net total VAT revenue	Adjustments following audit visits			% Adjustments on net total VAT revenue	No of audit visits
B	432,493,812	13,208,203	th.	BFR	3.05	53,224
DK	67,400,000	910,000	"	DKR	1.35	102441 (1)
D	N.A.	2,306,000	"	DM	N.A.	N.A.
GR	N.A.	N.A.	"		N.A.	N.A.
E	2,377,102,000	23,538,000	"	PTA	0.99	N.A.
F	321652000	10,043,000	"	FF	3.12	N.A.
IRL	1,017,000	64,000	"	IRL	6.29	34,275
I	N.A.	N.A.	"		N.A.	N.A.
L	16,053,359	N.A.	"	LUF	0.00	N.A.
NL	35,536,000	412,000	"	HF	1.16	N.A.
P	N.A.	15,711,678	"	ES		N.A.
UK	29,472,000	1,070,000	"	UK	3.63	N.A.

DATA 1989

Source: EEC Questionnaire Art. 12 Reg. No 1553/89

(1) Cases of adjustment
th. = thousands

B	following audit visits
DK	" " "
D	1.144.000 following general audit visits
	1.162.000 following VAT audit visits
E	actual VAT base increase
F	3.326.000 desk audits
	6.717.000 audit visits
IRL	following audit visits
NL	additional tax following fiscal controls
P	audit visits
UK	audit visits

Table 4.3.3.c. NUMBER OF CONTROLS OR INSPECTIONS IN EACH CATEGORY

		CONTROL OF RETURNS		VAT CONTROLS		PARTIAL VAT INSPECTIONS		GENERAL INSPECTIONS		OTHER CONTROLS	
		NUMBER	AMOUNT OF ADDITIONAL VAT CLAIMED	NUMBER	AMOUNT OF ADDITIONAL VAT CLAIMED	NUMBER	AMOUNT OF ADDITIONAL VAT CLAIMED	NUMBER	AMOUNT OF ADDITIONAL VAT CLAIMED	NUMBER	AMOUNT OF ADDITIONAL VAT CLAIMED
B	89	2.632.735	(1)	47.247	(2)	146.651	12.292.458.000 F.B.	(3)	(3)	-	-
	90	2.627.975	(1)	45.870	(2)	147.803	13.917.714.000 F.B.	(3)	(3)	-	-
DK	89										
	90										
D	89	(4)	(4)	(5)	(5)	62.080	1.161.535.000 D.M.	188.543	1.144.000.000 D.M.	13.581	(6)
	90	(4)	(4)	(5)	(5)	61.193	1.187.199.000 D.M.	195.813	1.250.000.000 D.M.	12.576	(6)
GR	89										
	90										
ES	89	13.619	13.243.000.000 Ptas	-	-	-	-	10.903	23.538.000.000 Ptas		
	90	112.437	not available	-	-	-	-	10.306	28.845.000.000 Ptas		
F	89	(7)	3.326.000.000 FFr	-	-	-	-	39.286	6.717.000.000 FFr	-	-
	90	(7)	4.305.000.000 FFr	-	-	-	-	37.237	5.652.000.000 FFr	-	-
IRL	89	(8)	(8)	(9)	(9)	34.000	68.000.000 IR	-	-	-	-
	90	(8)	(8)	(9)	(9)	37.000	78.000.000 IR	694	6.800.000 IR	-	-
IT	89	324.187	534.000.000.000 LIT	167.552	1.494.000.000.000 LIT	38.887	550.000.000.000 LIT	15.132	853.000.000.000 LIT	-	-
	90	311.446	108.000.000.000 LIT	185.464	1.615.000.000.000 LIT	80.391	348.000.000.000 LIT	15.907	935.000.000.000 LIT	-	-
L	89										
	90										
NL	89	3.049.000	34.079.000 HFL	-	-	67.262	443.000.000 HFL	-	-	-	-
	90	3.244.000	42.609.000 HFL	-	-	79.932	456.000.000 HFL	-	-	-	-
P	89	-	-	-	-	49.587	15.672.807.000 ESC	-	-	3.868	98.871.000 ESC(10)
	90	-	-	6.404	944.029.000 ESC	82.306	19.099.436.000 ESC	-	-	4.877	109.059.000 ESC(10)
UK	89	-	-	-	-	-	-	-	-	-	-
	90	-	-	-	-	-	-	-	-	-	-

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- B (1) All returns received by VAT control offices are subject to both a visual formal check and a computerised consistency check of the reported data. Where these controls show discrepancies, returns are sent back to or additional information is requested from, taxpayers for possible correction. No statistics are available concerning the additional amounts claimed to taxpayers in the framework of this procedure.
- B (2) This type of control does not yield any additional VAT directly but is the basis for deeper audits.
- B (3) The VAT section of the Belgian "Administration de la TVA, de l'enregistrement et des domaines" carries out exclusively VAT controls and does not directly control any other taxes. Only the "Administration de l'Inspection spéciale des Impôts" is responsible for auditing both direct and indirect taxes.
- D (4) Additional results from audits are not statistically seized.
- D (5) The corresponding controls are made in the framework of partial VAT inspections and other controls.
- D (6) The Steuerfahndung does not yet discern the taxes as to additional results.
- F (7) The central services of the "Direction générale des impôts" do not keep any statistics concerning the number of desk audits. Only the additional amounts claimed and the number of taxpayers concerned are registered.
- IRL (8) At the moment, no consistency checks are carried out on VAT returns other than for the largest VAT traders; however this is a feature of computerised checking which it is hoped to develop in the future.
- IRL (9) VAT controls as defined by you in footnote (2) form part of the normal VAT inspection. A minimum of 4 invoices are extracted and cross checked with other traders' records. In addition, wholesale traders' sales are analysed and verified within the trade. It is anticipated that this will be a growing trend for VAT inspections in the future.
- P (10) It includes the control of transit of goods and audits pursuant to appeals by taxpayers.

Table 4.3.4.

POWERS TO SECURE PAYMENT OF TAXES

Member State	Extent of powers to seize property of taxpayers'	Other powers available to tax authorities
B	Yes - through judicial procedures	Guarantees may be required and restriction on disposal of certain assets
DK	Yes	Powers to set off tax refund against claim
D	Yes - in case seizure of immovable property carried out by district courts or land registry offices	Authorities may require taxpayer to submit an inventory of his assets. Seizure from third parties of amounts owed to taxpayer. Company may be liquidated
GR	Yes	Recover amounts owed to taxpayers by third parties even by imprisoned debtors. Power to impose various administrative fines.
E	Yes	Tax authorities have priority to collect debts over all creditors so long as there are no mortgages with prior rights
F	Yes - upon a judicial decision	Seizure from third parties of amounts or goods owed to taxpayer and in exceptional cases imprisonment
IRL	Yes - by means of Revenue Sheriffs or through judicial procedure	Proceedings before courts. Seizure from third parties of amounts owed to taxpayer. Company may be liquidated.
I	Yes	Seizure from third parties of amounts owed to taxpayer. Tax claims have priority over other claims.
L	Yes	Tax claims have priority over other claims. Guarantees may be required and restriction on disposal of certain assets. Seizure from third parties of amounts owed to taxpayer.
NL	Yes	Debtor may be required to provide security under civil law, money in the hands of third parties may be seized
P	Yes, within the scope of a special judicial procedures (fiscal court)	Tax claims have no priority over other claims
UK	Yes (restricted to movable assets before liquidation procedure)	Demand of bankruptcy or liquidation of debtor

Table 4.4.1.

COORDINATION - COOPERATION WITH OTHER ADMINISTRATIONS

	National audit Coordination unit	Cooperation with other tax services	Possibility of obtaining information from other administrations	Cooperation with private institutions
	-----	-----	-----	-----
B	YES	Systematically for direct taxes, possible for others	YES	
DK	YES	Integrated services	YES, with police	YES
D	NO	Integrated audits	YES	
GR	YES	Integrated services	YES, by written procedure	
E	YES	YES, integrated data base	YES	
F	YES	YES, systematic information exchanged and coordinated audit	Generally YES	
IRL	YES	YES, close cooperation	YES	
I	YES	Generally not	YES	
L	NO	YES	YES	NO
NL	YES	Integrated services	YES, unless explicit banned	NO
P	YES	YES, in collection	YES	
UK	YES	YES, with direct taxes	limited	YES

Source : OECD and EC Commission

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ANNEX 4.4.2.

The responsibilities and organization of the "Guardia di Finanza" (1)

The Guardia di Finanza (depending directly by the Ministry of Finances) is a military structure of fiscal police in the service of the economic taxation interests of the Nation. Between the institutional tasks (Law No 189/1958) are :

- to prevent, search and report tax evasion and violations;
- surveillance, search and report tax evasion and violations;
- surveillance, at sea for fiscal law enforcement and assistance in maritime law enforcement and assistance in maritime law enforcement;
- enforcement of political- economic regulations.

The typical action of the Guardia di Finanza is the global tax investigation aimed at monitoring generally all taxable sectors (extending also to non-fiscal fields).

The fiscal inspection (gathering of data, inquiries, comparisons, etc., carried out through cross-checks aimed at systematically detecting every form of evasion) being expression of the control activity, is mainly aimed at detecting and gathering any useful detail for the assessment of income and taxes, as well the repression of administrative and criminal violations.

Most resources are devoted to the compliance with VAT regulations as well as in the other indirect taxes. To Guardia di Finanza is also assigned a fundamental role in the struggle against organised crime through the fiscal tool.

Table 4.5.1.a)

COURT PENALTIES

Country	Court sanctions	Possibilities to imprison offenders			Other special penalties	Publication of offenders' names
		Offences	Sentences	Frequency of use		
Belgium		Wilful fraud. False documents.	8 days to 2 years and/or following to court decision penalty from 10 000 to 500 000 FB	Varies	Suspension of right to practice.	Yes
Denmark		Only in very serious cases.	20 days to 30 years.	Rare (49 persons in 1987).	None	No
France		Tax fraud (if the authority recognize it is wilful case).	Fines or imprisonment up to 1-5 years (in exceptional cases).	In 1987, 358 cases	Prohibition to carry on a profession (commercial, industry, liberal profession) withdrawal of drivers' licence.	Yes
Germany		Wilful fraud.	Maximum 10 years	Rare	Prohibition to carry on business. Withdrawal of professional papers.	No
Greece		Only in limited cases.	Up to 6 months.	Rare	Certain business restrictions (e.g. payment of taxes in installments, participation in public bids, obtaining tax clearance certification, obtaining drivers' licence etc.)	No
Luxembourg		Actual or attempted fraudulent under-representation	Fines and/or imprisonment 8 days - 2 years	Rare	Facultative temporary suspension, totally or partially, of rights provided for under Art. 31 of Penal Code	Possible
Ireland		False statements. Construction industry fraud. Wilful fraud or failure to remit PAYE or VAT or obstruction of an officer.	Up to 6 months. Up to 6 months. 1 - 5 years.	Rare	-	Yes

Country	Court sanctions	Possibilities to imprison offenders			Other special penalties	Publication of offenders' names
		Offences	Sentences	Frequency of use		
Italy		Non-presentation of return; lack of bills. Falsification of documents.	Varies	Rare	Temporary prohibition to take public; temporary close of business.	No, but the lists of taxpayers are published every year with the indication of the amount of the assessed taxes.
Netherlands		Not filing or filing incomplete tax return; not supplying or supplying inaccurate and incomplete information; providing false or falsified accounts or other documents, or not keeping records at all.	Custodial sentence up to 6 months. If intentionally up to 4 years.	No details available		No
Portugal		Only in cases subject to common law.				Generally, no.
Spain		False records. Tax avoidance.	Up to 6 months. Up to 6 years.	Rare Rare	Loss of rights to obtain public subsidies	Yes
United Kingdom		False records, false claims, deduction, etc., sub-contractor frauds.	Variable (1 day to 8 years).	Rare	Prohibition on certain activities (sub-contractors, accountants).	No, but available from Court Records.

Table 4.5.1.b)

INTEREST AND PENALTIES ON TAX DEFICIENCIES

Country	Is interest generally imposed	If yes, what rate?	Basis of the interest charge	Other monetary penalties	
				Offences covered	Rate of penalty
Belgium	Yes	0.8% per month. Late remittance.	On tax due	Non-payment.	Increase in tax due up to 200%.
Denmark	Yes	1.3% per month.	On tax due	Incomplete, false or misleading information. Gross negligence.	Up to 200% tax due. Up to 100%.
France	Yes	0.75% per month.	On tax due	Failure to file a return on time. Failure to provide sufficient information. Late payments.	Between 10% and 80% of tax. Between 40% and 150% of tax depending on nature of negligence. 0.75% per month and 5% of tax.
Germany	Yes	0.5% per deferred month (late filing) 1% per month (late payment)	On tax evaded, on appealed tax amount, on deferred tax On tax due	Late filing. Late payment. Fraud	Max 10% of tax due Max DM 10,000. Max 7.2 mio DM
Greece	Yes	2% per (with max. of 75%)	On tax due	Non-filing. Inaccurate income tax return. Incomplete tax return. Late filing. Late payment.	150% of surcharge plus fine calculated at 30% or 40% or 50% on the amount of tax evaded respectively. 75% of surcharge plus fine, calculated at 20% or 25% of the amount of tax evaded. 75% of surcharge without fine. 3% per month (max. 120%). For all Tax Code offences.

Country	Is interest generally imposed	If yes, what rate?	Basis of the interest charge	Other monetary penalties	
				Offences covered	Rate of penalty
Ireland	Yes	1.25% per month	Late payment. Fraud/neglect : underlying tax from due date.	Evasion. Negligence. Failure to provide information. Failure to provide tax return.	Max. 200% of tax due. Max. 100% of tax due. Tax due increased by 10%.
Italy	Yes	4.5% per semestre	On tax due	Wide range of monetary penalties	200% to 400% for periodical payments. 50% for annual payments.
Luxembourg	Yes		On tax due, from date of official enforced payment warning.	Late payment.	10%
Netherlands	Yes	8% per annum (fixed by Minister of Justice)	On tax due starting 15 months after taxable period. If failure to pay tax: after 2 months.	Failure to submit tax return. In case of reassessment or additional assessment. Late payment (VAT, wages tax, dividend tax). Criminal penalties	Surcharge of 5% with min. of Gld 5 and max. of Gld 1,000 Surcharge of 100% (reduction of 75% gross negligence, reduction of 50% deliberate or more serious intent of gross negligence). No reduction in case of relapse of a serious offence, or in case of serious fraudulence. A surcharge of 10% (min. Gld 5) Fines up to 10,000 Offences committed intentionally fine of up to 25,000 or amount equal to the tax evaded if this exceeds 25,000.

Country	Is interest generally imposed	If yes, what rate?	Basis of the interest charge	Other monetary penalties	
				Offences covered	Rate of penalty
Portugal	Yes	24% per annum	On tax due	Failure to submit return, negligence, incorrect records, inexact declarations, tax evasion, etc.	Depending on the offence (not applied yet).
Spain	Yes	12% per annum	On tax due	Failure to keep record. Failure to pay. Late payment.	25,000 - 1,000,000 ptas. 50%-300% of tax due.
United Kingdom	Yes	Varies with market	On tax due	Failure to register. Failure to make a return or provide information required by law. Fraudulently or negligently supplying incorrect information in return, notice, etc.	Sliding scale : 10% - 30%. Failure to submit a tax return - initial penalty of up to £300 plus £60 per day thereafter. If the failure continues until the end of the tax year following that in which the return was issued, a further penalty of up to 100% of the tax due.

(Source : OECD and EC Commission)

Table 4.5.2.a)

Reassessment periods

Pays	Time period within which a reassessment is possible	
	Standard rule applicable after the first tax payment	Where the taxpayer has misrepresented information or committed fraud (from the date of first payment)
Belgium	5 years	5 years
Denmark	5 years	Up to 20 years
France	3 years	3 + 2 years (cases dealt with by menal courts)
Germany	4 years	5 - 10 years
Greece	3 years (from the date of final taxation)	10 years
Ireland	10 years (standard rule) 6 years (self assessment cases)	No limit (fraud or negligence)
Italy	4 years (5 in case of non-submission)	Certain limits
Luxembourg	5 years	5 years
Netherlands	5 years	5 years (penal offence : 12 years)
Portugal	5 years	5 years
Spain	5 years	5 years
United-Kingdom	6 years	20 years

(Source : OECD).

Table 4.5.2.b)

Administrative Discretion

Country	Power to determine the tax base where Inf. provided is insufficient or clearly incorrect	Discretion to waive or reduce tax liability or allow grace periods	Power to negotiate level of tax penalty
Belgium	Taxpayer fails to declare or complete records, or delay exceeds 12 months	No discretionary power to waive tax liability but grace periods or payment by instalments are possibly allowed	Good faith of taxpayers taken into consideration when decision on administrative (proportional) sanctions is taken. Remission of the fine possible by the Minister of Finance
Denmark	Taxpayer fails to file a return. Authorities are dissatisfied with the furnished return or information	In case of hardship payment by instalments or waiver is allowed (Remission is granted only to individuals)	Remission of the fine to one third of the expected fine if voluntary disclosure is made by a taxpayer
France	Taxpayer fails to file a return. Authorities are dissatisfied with the return. Taxpayer resists an audit	Rapport by instalment not allowed. Supplementary grace period is granted in certain cases (or great hardship to individuals)	Remission of the fine if voluntary disclosure is by a taxpayer
Germany	Taxpayer fails to file a proper return and to produce statutory accounts and records	Tax rebates, grace periods or tax waiving if tax would be inequitable (exceptional cases)	No
Greece	Taxpayer fails to produce a proper record	Payment by instalments (2-4 months) is allowed in certain cases of hardship	Remission of surcharge if voluntary disclosure is made before audits starts
Ireland	Authorities are dissatisfied with the submitted return, or taxpayer fails to file a return	Statutory grace period or remission in exceptional cases	Remission of penalty if voluntary disclosure is made and the comprehensive replies are made promptly
Italy	Taxpayer fails to file a return. When information provided by taxpayer is incomplete, false or inexact	(Payment by instalment for companies can be allowed to maintain employment level or to ensure provision of public services) no instalment nor postponement	No

Country	Power to determine the tax base where Inf. provided is insufficient or clearly incorrect	Discretion to waive or reduce tax liability or allow grace periods	Power to negotiate level of tax penalty
Luxembourg	Taxpayer fails to file a return or return incomplete or considered inaccurate on the basis of serious, precise, concordant evidence	Waiver in cases of hardship. Postponement and instalment possible. Possibly for the administration to grant, on an individual basis, and on substantiated request, payment deferrals	No
Netherlands	If a tax return is not filed or in case a tax return is suspected to be incorrect and records are unreliable, or if the taxpayer does not comply with the obligation to produce information or records for inspection	In cases of hardship all or part of debt may be waived. Upon request payment may be deferred or paid by instalments	When making a reassessment or additional assessment the tax inspector should ascertain the degree of fault and in fraud cases the so-called recidive in determining the amount of the administrative fine. There are directives for waiving administrative fines. The regional director of taxes has the power to waive the administrative fines
Portugal	Taxpayer fails to file a return. The records produced by a taxpayer fail to give a justifiable basis for assessment. When the relationship between a taxpayer and others does not comply with the arm's length prices	No discretion of waive	
Spain	Taxpayer fails to file a return or appropriate record. When taxpayer fails to co-operate with the authority	Grace periods and payment by instalments are possible. No discretion to waive tax nor interest payments	Remission of penalty if compromise is reached and a taxpayer agrees to pay
United-Kingdom	Taxpayer fails to include all chargeable profits and gains. Authorities are dissatisfied with the return. Taxpayer fails to keep adequate records (e.g. absence of details of the income)	Under a general "care and management" power, but without hard and fast rules, remission of tax liability and payment by instalments are allowed in exceptional cases (e.g. wrong information given by the administration)	Remission of penalty if taxpayer makes full disclosure on challenge and co-operates with the investigation

TAX AMNESTIES

Country	Tax amnesties are used	Frequency
Belgium	No	
Denmark	No	-
France	Yes	1986 (most recent)
Germany	No	-
Greece	Yes	1988
Ireland	Yes	1988 (most recent)
Italy	Yes	1982/1989/1991
Luxembourg	No	
Netherlands	Yes	
Portugal	Yes	1986/1988
Spain	Yes, subject to certain conditions	
United - Kingdom	No	-

(Source : OECD and EC Commission)

Table 4.5.3.

APPEAL PROCEDURES

Country	Is recovery suspended when assessment is under appeal ?	Interest on tax payment and other penalties payable from normal due day (i.e. if appeal was not made, if appeal was unsuccessful)	Other features
Belgium	Yes	Yes	-
Denmark	Yes (subject to certain conditions)	Yes	-
France	Yes if there are sufficient guarantees provided.	Interest is paid from 13th month after the month in which the tax should have been paid.	The taxpayer has some recourse before the claim is made.
Germany	Exceptionally subject to evaluation by authorities.	Yes, as from day appeal lodged or day of execution.	-
Greece	Yes (by decision of the court of first degree).	No	No
Luxembourg	No	No	-
Ireland	No, subject to certain conditions.	Yes	-
Italy	No	Yes	-
Netherlands	Yes, if requested by the taxpayer.	Yes	-
Portugal	No, unless guarantee provided by taxpayer.	Yes, 2 % per month.	-
Spain	Yes, subject to certain conditions	Yes	-
United - Kingdom	No, subject to certain condition		-

(Source: OECD)

CONTROL OF INTRA-COMMUNITY VAT TRANSACTIONS AFTER 1992

The principal feature of the system used to check transactions between VAT traders after 1992 is that it will no longer rely on customs controls at Community internal frontiers to check VAT liability; instead it will be based for the most part on an audit-trail type of control system integrated into the control procedures which the VAT authorities of Member States currently use for checking domestic VAT transactions.

From the trader's point of view the system will operate as follows:

- (i) after satisfying himself that his customer is registered for VAT in another Member State, the trader will zero-rate the consignment and issue an invoice in the usual way. However both his VAT registration number and the VAT registration of his customer in the other Member State must be indicated on the invoice. No official document will be required to accompany the consignment;
- (ii) in making his regular VAT returns to the fiscal authorities, the trader will in future provide two additional items of information i.e. the value of zero-rated sales to other Member States and the value of goods acquired from other Member States;
- (iii) in addition, a VAT trader who sells to other Member States will have to submit a three-monthly recapitulative return to his VAT authorities. This return will indicate his VAT registration number, the VAT registration number of his purchasers in other Member States and the global value of his sales to each purchaser for the period in question.

The authorities of the Member State of the seller must thereafter proceed to compile and prepare the information under (iii) above for distribution to the authorities of other Member States. To do this, all such information will be stored on computer files. When the information is compiled in the agreed format, the following will be transferred automatically to the authorities of each Member State of destination or will be made directly accessible to them viz:

- the VAT registration number of each purchaser in the Member State concerned,
- the total value of all supplies received by each purchaser from all sellers in the Member State in question for each three-monthly period.

In addition the authorities of the Member State of the purchaser will have direct access to the following information viz:

- the VAT registration number of sellers in the Member State in question,
- the total value of supplies from such a seller to each particular purchaser concerned for the period in question.

Furthermore, arrangements will be made to ensure that the VAT registration number of a purchaser can be verified in the Member State of the seller, by the trader and/or by the control authority of that Member State. Further information may be obtained by the authorities of the Member State of the purchaser in cases where there is a presumption of fraud - in particular information may be requested concerning individual transactions such as invoice dates, invoice numbers, total invoice values and other particulars as necessary.

The system of exchanging information will be given legal force by a new Council regulation on administrative cooperation which will provide for a new committee to oversee the smooth functioning of this system. The committee will deal in particular with the system of computerized information exchanges and will provide a new general Forum for exchanges of views and information between Member States and will monitor the system and, as necessary, propose appropriate new means of preventing fraud. A feasibility study is currently being undertaken at the behest of the Commission with the aim of ensuring that the computerized structure necessary for the exchanges of information referred to above is put in place in each Member State before January 1993.