



## *Effectively protecting the EU tax payer*

*Algirdas Gediminas Šemeta is a Lithuanian economist and Member of the European Commission since July 2009. Initially, he served as Commissioner for Financial Programming and Budget, and from 2010, his portfolio covered Taxation, Customs, Audit, Anti-Fraud and Statistics (since 2012). Prior to joining the European Commission, he was Minister of Finance on two occasions, Director General of Statistics Lithuania, and Secretary of the Lithuanian Government. In 2012, International Tax Review named Algirdas Šemeta as the second most influential person in the world in international taxation.*



## SETTING THE STAGE FOR BETTER AND FAIRER TAXATION

### Challenges in European taxation

- Tax evasion deprives Member States of billions in revenues at a time where consolidation of public finances is greatly needed
- National tax reforms should better support growth and jobs
- Businesses face hurdles with different tax obligations across EU and high compliance costs
- National tax reforms should be put at the service of tax and jobs

EU citizens rightly expect more from their tax systems. First, it is essential to take determined action to combat tax evasion – and not just in times of crisis. Experience shows that this is not a

### Fighting tax fraud and tax evasion

During Commissioner Šemeta's mandate, the European tools to tackle tax fraud and tax evasion were strengthened considerably. Major steps forward were taken towards greater tax transparency in Europe and worldwide. With the backing of the G8 and G20, automatic exchange of information has been accepted as the new global standard.

Reacting quickly to the new global efforts supporting automatic exchange of information, the proposal to amend the Directive on Administrative Cooperation to incorporate the new Global Standard was agreed in just over a

problem that Member States can tackle in isolation. Secondly our citizens expect EU Member States to implement fairer tax systems, and to provide quality tax reforms, which are essential for businesses to grow and flourish in the Single Market.

*"An ambitious reformer, Algirdas Šemeta remains the most powerful man in tax across the EU."*

*International Tax Review (11.12.2013)*

year. Once implemented, it will effectively end bank secrecy in Europe and ensure widespread tax transparency.

Determined action was also taken by the Commission to clamp down on corporate tax dodging by big companies and tackle tax havens. For example, an ambitious Action Plan presented by Commissioner Šemeta in 2012 set out over 30 concrete policy initiatives against tax evasion and avoidance. This was followed by many important initiatives to thwart the efforts of tax evaders, and is the cornerstone of a new framework to recover billions in evaded taxes

## Greater fairness in taxation for citizens and businesses

which are lost to the public purse every year. Important new initiatives agreed include a Quick Reaction Mechanism to tackle VAT fraud, measures to ensure mutual assistance and better

### Creating fairer tax systems

Fair taxation means that everyone pays their rightful share. The [Financial Transaction Tax](#), proposed by Commissioner Šemeta in 2011, can ensure that the financial sector does just that. This tax, which is strongly supported by citizens, is now being taken forward by a group of 11 Member States. When implemented through enhanced cooperation, the FTT will ensure that these countries are fully coordinated in their taxation of the financial sector, thereby avoiding additional tax obstacles within the Single Market.

Commissioner Šemeta also set the wheels in motion to find a more effective way of taxing the digital economy, without stifling it. He commissioned a [High Level Expert Group](#) to conduct an in-depth examination of taxation of

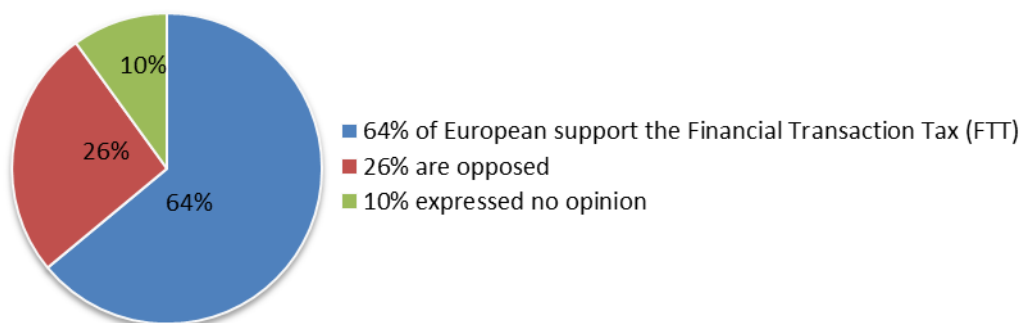
cooperation between national tax authorities, and legislation to close loopholes in EU tax law that corporate tax avoiders exploited.

the digital economy, looking at the challenges and proposing responses. The Group presented its report in May 2014, which will guide any future initiatives in this area at EU level.



*J. M. Barroso, A. Šemeta and V. Gaspar, holding the final report of the Commission High Level Expert Group on Taxation of the Digital Economy.*

### FTT: the most popular tax ever proposed



*64% of EU citizens support the Financial Transaction Tax (source: Eurobarometer)*

## Stronger economic coordination and national quality tax reforms



*Commissioner Šemeta presenting 2012  
Annual Growth Survey*

Under the Barroso II Commission, tax policy was set firmly at the centre of economic policy coordination. Member States were encouraged to pay particular attention in designing growth-friendly tax policies. Taxation is indeed much

### Reducing obstacles to the single market

Breaking down cross border tax obstacles remained a key focus of EU tax policy during Commission Šemeta's mandate. Many initiatives were taken forward to considerably ease the life of businesses in the Single Market. The proposal for a standard VAT declaration, for example, offers cross-border companies a chance to fill in a single VAT return for all their EU transactions,

more than collecting revenue. Well-designed tax systems can support wider policy objectives, and help promote growth and employment. Through the new economic governance structure, known as the European Semester, the Commission made concrete recommendations to Member States which can help to improve the overall quality of taxation in the EU. These included shifting the tax burden away from labour towards more growth-friendly tax bases (e.g. property and environment). These recommendations are now being implemented, while paying special attention to the needs of the most vulnerable citizens.

Furthermore, Commissioner Šemeta proposed in 2011 to review the [EU Energy Taxation Directive](#), in order to ensure fairer competition between different fuels and to address problems related to the taxation of renewables. This proposal makes a direct link between taxation levels and the CO<sub>2</sub> and energy content of fuels, thereby supporting the EU's climate change and energy goals and creating opportunities for innovation.

rather than potentially 28 different VAT returns. Estimated savings from this initiative alone stand at €15 billion a year. The ground-breaking 2011 proposal for the Common Consolidated Corporate Tax Base also has simplification for businesses at its heart, while also offering the potential to be a powerful tool in tackling corporate tax dodging.

### Highlights of the Mandate in Taxation

- End of Bank secrecy: Adoption of the revised Savings directive (2014) Political Agreement on revision of Administrative Cooperation Directive that incorporates the Global Standard on AEOI (2014) and proposal for extending the scope of revenues subject to transparency (2013)
- VAT legislation to cut red tape for businesses – e-invoicing (2010) and standard VAT declaration(2013)
- First enhanced cooperation in the field of Taxation for a Financial transaction Tax (2013)
- Action plan to fight tax fraud and tax evasion (2012)
- Adoption of the Quick Reaction Mechanism in VAT fraud (2013)
- Proposal for a common European corporate tax system with the Directive for a Common Consolidated Corporate Tax Base (2011)
- Taxing CO2 with the review of the energy tax directive (2011)
- Strategy to create a simpler, more efficient and more robust VAT system (2011)
- Adoption of Parent-Subsidiarity Directive (2014)

## MODERNISING AND STRENGTHENING EU CUSTOMS UNION

### The EU Custom Union in figures in 2013

- **Value of EU external trade:** €3.4 trillion
- **Tonnes of goods moving across EU borders:** 2.2 billion
- **Declarations submitted to customs:** 271 million
- **Imports using simplified procedures:** 74%
- **Authorised Economic Operators (AEO):** 13,821 - involved in 65% of import and export

As the world's largest trading block, open markets and fluid and safe trade flows are critical to the Union's economic growth and

### Modernising the customs union

During Commissioner Šemeta's mandate, the legislative framework was finalised for a modern, streamlined, pan-European electronic customs environment. Implementation has now been launched. In the [Union Customs Code](#) (UCC), the balance between the need to control supply chains and apply policy measures, on one hand, and facilitate trade for reliable traders, on the other, was achieved. A work programme for full implementation of the UCC and the related IT systems by 2020 was adopted in May 2014.

competitiveness. At the same time, EU policies need to be applied to external trade in a uniform manner, and supply chains need to be adequately controlled to ensure the safety and security of the EU and its inhabitants.

In this context, major initiatives were taken during Commissioner Šemeta's term, and significant progress was made in reforming the EU customs union and facilitating trade. Significant progress was achieved in enhancing the protection of EU citizens and markets. Multilayer risk management is now the guiding principle of customs work in the EU and enforcement has been strengthened in key areas. Considerable advances were also made in building strategic partnerships with international partners and business.

*"We've brought the EU Customs Union into the 21st century, allowing for smoother and safer trade. That's good for our businesses and it's good for our citizens."*

*Algirdas Šemeta*

### Reinforcing enforcement

In 2011, the full implementation of new security measures was finalised, and multilayer risk management was established. This has become one of the fundamental principles of EU customs work. New rules adopted on customs enforcement of intellectual property rights (IPR) reinforced actions against counterfeiting and piracy, particularly in relation to imports of small consignments via internet sales. Customs now also have clearer rules and adequate tools to quickly react to new trends in imports of drug precursors.

Cooperation between customs and market surveillance authorities has been improved and will continue to be a priority. It helps to ensure better identification of risks from potentially unsafe imported consumer products early in the supply chain. Having reviewed and identified gaps in the risk management system in 2012, the Commission published a Strategy to improve customs risk management and supply chain security in June 2014.



*Commissioner Šemeta visits the Vaalimaa Customs House on the Finnish-Russian border.*

### Strategic partnerships, facilitating trade globally

Partnership between EU customs and legitimate traders was enhanced with the improvement and growth of the [Authorised Economic Operators \(AEO\)](#) programme. AEOs are today involved in approximately 65% of EU export and import. The concept of EU reliable traders was expanded beyond EU borders through mutual recognition

with Japan, the USA and China. This is a highly significant step in developing global solutions for reliable EU traders. In 2013, Commissioner Šemeta participated in the WTO Ministerial Conference in Bali, which led to a major global milestone Agreement on Trade Facilitation.

### A top performing customs union in 2020

The Union Customs Code now moves into implementation phase, supported by the new [Customs 2020 Programme](#). Based on a long review to establish priorities for its future evolution, a blueprint for governance reform

beyond 2020 will be put forward for adoption before the end of 2014. As a result of initiatives during Commissioner Šemeta's mandate, the stage is set for the EU Customs Union to remain a global top performer in 2020 and beyond.

### Highlights of the Mandate in Customs

- Full implementation of the Community Customs Code Security Amendment (2011)
- Customs Enforcement of IPR Regulation (2012)
- IPR Action Plan 2013-2017 (2012)
- Drugs precursors Regulation (2013)
- Union Customs Code (2013)
- Customs 2020 Programme (2013)
- Communication on the State of the Customs Union (2012)
- Communication on Risk Management and Supply Chain Security (2013)
- Customs infringements and penalties (proposal 2013)
- Strategy and Action Plan for Customs Risk Management and Supply Chain Security (2014)
- Mutual recognition of AEO with Japan (2010), USA (2012), China (2014)



## BOOSTING THE EUROPEAN FIGHT AGAINST FRAUD

### OLAF in figures in 2013

- 253 investigations opened
- €402 million in EU funds recommended for recovery
- Average duration of investigations reduced by about 25% since 2011

The EU budget is a vital source of funding for citizens, businesses, scientists, students, towns and regions across Europe. Its importance as a source of growth-friendly investment grew even

### Preventing fraud from occurring

The most effective way to combat fraud is to prevent it from occurring. In order to do that, all people involved in the process of spending EU funds need to be aware of the situations which are particularly prone to fraud, and how to avoid this. Suitable checks and balances must be in place to prevent abuse of EU funds.

One of Commissioner Šemeta's first priorities after taking up office was to launch a [multi-annual Anti-Fraud Strategy](#). Initially addressed to the Commission services, this Strategy has since become pivotal in raising fraud awareness amongst those who manage and audit EU funds in the Member States too. Moreover, based on

greater with the economic crisis.

Therefore, protecting the EU funds against abuse and tackling fraudsters is of paramount importance. The European Commission takes a "zero tolerance" approach to fraud and, during Commissioner Šemeta's term, the EU anti-fraud framework has been considerably strengthened. In addition to improving the functioning of the European Anti-Fraud Office (OLAF), the Commission also proposed a new European Public Prosecutor's Office. Moreover, Commissioner Šemeta put forward a number of important initiatives to better protect EU funds across the EU.



this Strategy, specific anti-fraud provisions were introduced into the new EU spending programmes for 2014 to 2020.

### Tackling fraudsters throughout the EU

Fraud must not pay off. The first line of defence is prevention. However, there also needs to be robust tools to detect fraud when it does occur, and to bring fraudsters to justice and recover the money.

The EU's anti-fraud office, OLAF, has been effectively investigating suspected cases of fraud since 1999. During Commissioner Šemeta's mandate, a fundamental reform of OLAF was agreed and implemented, to make it even more efficient and effective in its tasks. OLAF was substantially reorganised and its legal base was comprehensively reviewed. Procedural guarantees for persons concerned by OLAF investigations have also been reinforced.

During this mandate, the Commission also put forward important initiatives to ensure that fraud cases are more consistently brought to court and prosecuted, in accordance with the applicable criminal law. In order to ensure the effective punishment of fraudsters throughout the EU, Commissioner Šemeta proposed that Member States' sanctions for such crimes be aligned. This should effectively prevent fraudsters from "shopping around" for the weakest link in the enforcement chain, and taking advantage of more lenient national approaches.

In 2013, the Commission presented the ground-breaking proposal for a European Public Prosecutor's Office. This new EU body should be able to operate before all national courts in the Member States, and ensure that full priority is

given to the prosecution of EU fraud cases. The European Public Prosecutor's Office will make sure that suspected fraud against the EU budget is followed up properly, and that criminals defrauding EU funds are prosecuted and brought to justice. Not only will this make the crack-down on fraud more effective, but it will also have a strong deterrent effect.

*"The EU budget will be safer with the European Public Prosecutor's Office and the improved OLAF as its watchdogs"*

*Algirdas Šemeta, Statement on European Public Prosecutor's Office, 17 July 2013.*



*Commissioners V. Reding and A. Šemeta presenting the joint proposal on the European Public Prosecutor's Office*

### **Protecting the EU's income**

Tobacco smuggling costs the EU and its Member States about €10 billion per year. Not only does this illegal activity undermine public health policies and put consumers at risk, but it is also often the source of funding for more sinister criminal activities.

Commissioner Šemeta made the fight against tobacco smuggling a top priority. In 2011, he put forward an Action Plan to target cigarette and

alcohol smuggling along the EU's Eastern border. This included training and new equipment, for example, at the points in the EU's external border which are considered more vulnerable to smuggling. In 2013, Commissioner Šemeta put forward a comprehensive EU-wide strategy to stamp out tobacco smuggling, which entailed a series of measures involving national, EU and international coordination.

### **Highlights of the Mandate in Anti-Fraud**

- Commission Anti-fraud Strategy (CAFS) (2011)
- Reform of the OLAF Regulation (2013)
- Proposal for a European Public Prosecutor's Office (2013)
- Commission Strategy for the fight against illicit trade in tobacco products (2013)
- Signature of the FCTC Protocol to eliminate illicit Trade in Tobacco Products (2013)

## ENSURING ROBUST AND CREDIBLE STATISTICS

### Eurostat in figures in 2013

- **European Statistical System:** Eurostat + 32 national statistical institutes of EU Member States and EEA/EFTA countries
- **Eurostat website** provides a wealth of statistical information and services: 2,3 million user sessions per month
- **Eurostat news releases:** 200
- **Requests** (the media and institutional support): 2,900
- **Twitter followers:** 25,000

Trust in European statistics is essential, given the central role that they play in evidence-based policy and decision-making. Sound data is needed for sound decisions, while citizens increasingly depend on statistics as a reliable source of information about the world around

### More robust quality of statistics

Commissioner Šemeta continuously worked to safeguard the quality and reliability of European statistics. In 2012, he proposed new legislation to safeguard in law the independence of European statistics, and ensure that they adhere to the highest standards. Later that year, the Commission adopted measures to clarify and reinforce the role and responsibilities of Eurostat, and uphold the independence of the head of the European statistics office.

them. Moreover, high quality statistics are ever more important given their prominence in the reinforced economic governance framework for the European Monetary Union (EMU). Statistics underpin crucial measures such as the Commission's recommendations in the European Semester and the use of enforcement mechanisms in the case of non-compliance with agreed targets.

To ensure the quality of statistical information used for the excessive deficit procedure, the EU statistical office, Eurostat, has been granted audit-type powers. A similar surveillance tool for statistics related to the macroeconomic imbalances scoreboard has also been proposed.

Major policy initiatives were taken during Commissioner Šemeta's term to enhance the credibility of European statistics and improve the [European Statistical System](#).

*"The EU has advanced towards a world-class statistical system that underpins sound policy-making and better economic governance."*

Algirdas Šemeta, 17 September 2012.

### Modernising and streamlining statistical processes

The European statistical system is undergoing a significant modernisation process, which was launched by the Commission through the [European Statistical Programme 2013-2017](#). The aim is to move to new and more efficient methods of producing statistics, while reducing

the burden on citizens and businesses that respond to statistical surveys. In a time of scarce and decreasing resources, the reform will help the statistical system respond to ever-increasing demands and new and emerging challenges.

**Eurostat's mission: to be the leading provider of high quality statistics in Europe**



### Highlights of the Mandate in Statistics

- Implementation of the Vision towards modernisation of the production method of EU statistics (since 2009)
- New audit-like powers for Eurostat (2010) and investigation powers against manipulation of statistics in the '6-pack'(2011)
- Commission communication entitled 'Towards robust quality management for European Statistics' (2011)
- Revision of the European Statistics Code of Practice (2011)
- Commitment on confidence in statistics signed by Greece and the Commission (2012)
- Revision of the Statistical Law (on-going) and new Commission Decision on Eurostat (2012)
- European Statistical Programme 2013-2017 (2013)
- New European System of national and regional accounts -ESA2010 (2013)
- Implementation of the "GDP and Beyond" action plan (since 2009), broadening the macro-economic accounting by integration of social and environmental aspects
- Report to the EP/Council 'Towards implementing harmonised public sector accounting standards in Member States' – EPSAS (2013)
- Adoption of EP/Council Regulations on environmental accounts (2011), permanent crop statistics (2011), demography statistics (2013), etc.

## ENSURING VALUE FOR MONEY AND PROTECTING THE EU BUDGET

Every year, the EU invests around € 140 billion in programmes for citizens, SMEs, researchers, farmers, students, towns and regions, as well as in external aid, environment, consumer protection, energy infrastructure and many other policy priorities. EU funds are vital for Member States and their regions; all the more so in times of economic hardship.

Responsible for audit and budget discharge, Commissioner Algirdas Šemeta was intently focussed on ensuring that EU money was well spent, in a transparent, legal and cost-effective manner.

### Protecting the EU Budget

With millions of euros disbursed to beneficiaries across 28 Member States every year, errors will sometimes occur, despite the stringent rules and multi-layered control system in place. When errors do occur – i.e. when spending is not in line with the rules – the Commission arduously protects the EU's financial interests to prevent loss of taxpayers' money. It can do this through financial corrections and recoveries, and by suspending or interrupting payments when it has concerns.



Under Commissioner Šemeta's mandate, he pushed for the full use of all preventive and corrective measures needed to ensure that the EU budget was protected and properly spent.

In 2012, for example, financial corrections and recoveries amounted to € 4,4 billion or 3,2% of all payments. Over a period of five years (from 2009 to 2013), the total amount was € 13,7 billion. This corresponds to an average level of corrections and recoveries of 2,1% of all payments made in



that period. In short, the control systems implemented by the Commission have been effective in protecting the EU budget.

Moreover, Commissioner Šemeta worked to ensure that there would be even stronger measures to reduce the risk of errors in EU spending under the new programming period 2014-20. On the basis that simpler rules are easier to respect and easier to check, he strongly promoted the use of simplified payment schemes and eligibility rules. He also supported new instruments to sanctioning Member States that neglect their responsibilities for protecting EU funds. Under the new rules, if Member States fail to address irregularities on time, they risk losing EU funds for programmes definitively.

Finally, Commissioner Šemeta set the ball rolling for all Member States to openly assume political responsibility for the correct use of EU funds. He established an inter-institutional working group which developed templates and recommendations for national declarations. These are statements of assurance issued at the highest level, confirming that all national

obligations have been met when it comes to managing and controlling EU funds. National declarations can create more accountability and incentivise better performance by Member States in managing EU funds, thereby having a positive impact on the quality of EU spending.

*“The Commission gives the highest priority to ensuring that the budget is well-managed and well-protected. And we will continue to do so in the years ahead.”*

*Algirdas Šemeta, Statement on the European Parliament's decision to grant discharge to the Commission for the 2012 EU budget, 4 April 2014*

### Working for budget discharge

Every year of Commissioner Šemeta's term as Audit Commissioner, the European Parliament granted budgetary discharge to the Commission, following a positive recommendation from the Member States in Council.

This is a major achievement and of immense

importance for the legitimacy of the EU as a whole. It required genuine inter-institutional dialogue with the Court of Auditors, while fully respecting the Court's professional independence as the external auditor. Commissioner Šemeta focussed on the proactive implementation of the recommendations

issued by the European Court of Auditors, with a view to constantly improving the management and control of EU spending. This was confirmed by the Court of Auditors itself, in the special report 19/2013, which stated that the Commission adequately follows up the Court's recommendations which have contributed towards improving financial management in a number of areas of the EU budget. He also prompted the establishment of an inter-institutional working group between the Court and the Commission, to reflect on how the quality of the Court's recommendations and the follow up by the Commission's services could be improved.



*Commissioner Algirdas Šemeta with the President of the European Court of Auditors Vítor Caldeira, January 2014*

### Keeping the house in order: Internal audit

Commissioner Šemeta was also responsible for the Commission's Internal Audit Service (IAS) and was Chair of the Audit Progress Committee (APC). During his mandate, he established new priorities for internal audit within the Commission. These included focussing on the main financial and reputational risks, monitoring more closely the follow-up on the Court of Auditors' recommendations and making a shift from purely financial audit to performance-related audit (including cost-effective controls).

The IAS and APC have fully integrated those three main objectives in their work programmes. IAS issues less, more targeted recommendations that are now quickly implemented by the Commission services. The APC informed the College about the main risks identified through audits. In order to raise awareness more broadly in the Commission about audit and internal control issues, Commissioner Šemeta ensured that, over the mandate, ten Commissioners were active as Members of the APC, advised by two external experts.

### **National Supreme Audit Institutions (SAIs)**

About 80% of the EU budget is managed and controlled by the Member States, through the "shared-management", which covers agriculture, rural development, cohesion, regional and social funds. Therefore, Commissioner Šemeta invited the national Supreme Audit Institutes (SAIs) to be more involved in the auditing of EU funds spent in the Member States. Some specific joint

actions have been carried out, together with the European Court of Auditors, although there is still much more to do in order to apply the "single audit model". This concept enables an auditor at EU level to rely on the audit work of a national audit body, saving resources and avoiding overburdening beneficiaries of EU funds.