



## Press Release

Luxembourg, 16 July 2019

# E-commerce still vulnerable to VAT and customs duty evasion, say EU Auditors

Many challenges in collecting correct amounts of VAT and customs duties on e-commerce remain to be resolved, according to a new report from the European Court of Auditors. In particular, EU controls are insufficient to prevent fraud and detect abuse, while enforcement of collection is still not effective. However, recent developments and new provisions for 2021 address a number of weaknesses identified, say the auditors.

In the EU, the European Commission is responsible for setting customs and taxation policies, strategies and legislation. As for any other goods and services, Member States collect VAT and customs duties on cross-border e-commerce transactions. By its very nature, e-commerce is particularly prone to irregularities in this respect.

The auditors assessed whether the Commission had established a sound regulatory and control framework and whether Member States' control measures helped ensure the complete collection of VAT and customs duties due on goods and services traded over the internet. They also considered the likely impact of the legislative changes of the VAT e-commerce package that will enter into force in 2021.

*"Any shortfall in the collection of VAT and customs duties affects the budgets of the Member States and the EU", said Ildikó Gálli-Pelcz, the Member of the European Court of Auditors responsible for the report. "E-commerce is particularly open to abuse and its vulnerability to irregularities and fraud has not yet been fully mitigated."*

International cooperation is essential to ensure the completeness of revenue collection from e-commerce. The auditors note, however, that arrangements in place are not fully exploited and exchange of information between Member States and with non-EU countries is insufficient. In addition, the enforcement of the collection of VAT and customs duties is not effective, the auditors highlight. Member States are unable to provide sound and common estimates of the VAT gap, i.e. the difference between what should be collected and what is actually collected. Overall, tax authorities cannot ensure that the right amount of VAT is paid to the right Member State at the right time.

*The purpose of this press release is to convey the main messages of the European Court of Auditors' special report. The full report is available at [eca.europa.eu](http://eca.europa.eu).*

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The auditors further point out the lack of effective controls on cross-border e-commerce. Checks carried out by the national tax authorities are weak and the Commission's monitoring activities are insufficient, they say. For instance, the EU is unable to prevent abuse such as the deliberate undervaluation of goods below the thresholds for VAT and/or customs duty exemptions.

Regarding the new provisions that will enter into force in 2021, the auditors acknowledge positive developments. These aim to resolve some weaknesses of the current framework, including the gap in the VAT liability of intermediaries. However, important issues remain to be addressed. In particular, the auditors consider that undervaluations are very likely to continue under the new rules.

To better address the challenges identified, the report concludes with a number of recommendations to the Commission and the Member States. Among other things, the auditors ask them to:

- carefully check traders' compliance thresholds for VAT/customs;
- develop a methodology to produce estimates of the compliance VAT gap;
- explore the use of suitable "technology-based" collection systems to tackle VAT fraud on e-commerce.

#### Notes to Editors

EU customs law is laid down mainly in the Union Customs Code, while VAT is governed by the VAT Directive.

The EU's "e-commerce package", proposed by the European Commission on 1 December 2016 and adopted by the Council at the end of 2017, was intended to address a number of weaknesses discussed in the report. It was drawn up within the framework of the Strategy for the EU Digital Single Market. The first reforms in respect of VAT came into effect on 1 January 2019. Other measures will come into effect in 2021.

Special report 12/2019 "Ecommerce: many of the challenges of collecting VAT and custom duties remain to be resolved" is available on the ECA website ([eca.europa.eu](http://eca.europa.eu)) in 23 EU languages.

VAT and customs issues have also been the subject of other recent ECA special reports, in particular [special report 24/2015](#) on tackling intra-community VAT fraud and [special report 19/2017](#) on import procedures.

The ECA presents its special reports to the European Parliament and the Council of the EU, as well as to other interested parties such as national parliaments, industry stakeholders and representatives of civil society. The vast majority of the recommendations we make in our reports are put into practice.

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