Financial Cooperation Mechanism Fighting Bank Fraud in EU

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Abstract

Combating fraud and tax evasion requires action at national, EU and global level. The European integration process has led to a closer integration of the economies of all Member States recorded high volumes of cross-border transactions, as well as reduces the costs and risks associated with these transactions. The process has generated enormous benefits for citizens and businesses, but instead, created additional challenges for national tax administrations regarding cooperation and exchange of information.

1. Introduction

Because there are some commonalities in the administrative cooperation between different areas of taxation, the Commission will study the feasibility of legally and practically, a single legal instrument for administrative cooperation for all taxes, instead of four different instruments, so as currently exists. This exercise will be done after a certain period of time, given that all existing legal bases for cooperation in the field of direct taxation and recovery of tax claims were recently repealed and replaced by new legislative initiatives.

Experience has shown that Member States can effectively handle these challenges only if they act together, based on agreed EU framework. Exclusively unilateral solutions will not work. In a single market in a globalized economy, inconsistencies and gaps in national laws are too easily exploited by those who seek to evade tax obligations.

The EU has long had a strong policy on good governance in the tax area. The principles underlying the EU system are transparent, automatic exchange of information and fair tax competition. EU can build on the experience gained over many years: the automatic exchange of information is the 2005 EU Savings standard.

The current economic and financial crisis in the EU budget and serious social consequences in Member States. It is necessary that public finances to be reviewed urgently to support social protection systems and public services to limit refinancing costs incurred by the State or other public authorities, and to avoid negative spillover effects on the rest of the economy. By reducing tax evasion and avoidance, Member States can increase their revenues from taxes and duties, which will also provide a greater leeway to restructure their tax systems in a way to promote more good growth.

Also, reduce fraud and tax evasion can support the efforts of Member States aimed to ease the burden borne by low-income people and the most vulnerable groups. In 1994, the European Commission decided to set up an Advisory Committee for the Coordination of Fraud Prevention - COCOLAF (nr.140/1994 Decision establishing an Advisory Committee to coordinate fraud prevention, as amended by Decision no. 223/2005). COCOLAF can be consulted by the European Commission in any field of preventing and combating fraud and any other illegal activities affecting the financial interests of the Community and in any field of cooperation between Member States and between the latter and the Commission to protect Community’s financial interests.

COCOLAF Commission may consult on any matter relating to the protection of euro banknotes and coins against counterfeiting. Can also referring to the legal protection of the financial interests of the Community, particularly in matters of administrative and judicial cooperation in the fight against fraud. An obstacle to effective action against fraud is the lack of uniformity of the laws governing the conduct of investigations by national administrations and different levels of intensity measures of repression. A nearby national laws seems therefore to follow the main road to stop actual fraud in
the sector, which is a typical form of transnational crime. Also, tens of billions of euro, often unreported and untaxed, is still in offshore jurisdictions, reducing the national tax revenue. Given the magnitude of this phenomenon, strengthening the fight against fraud and tax evasion is not only an income but also fairness. It is important to note that, in general, the majority of EU taxpayers take measures to meet tax obligations. Especially in these hard times economically, these honest taxpayers should not bear additional tax increases to offset the loss of revenue caused by those who commit fraud and tax evasion. Therefore, emphasis should be put on the fight against fraud and tax evasion. It does not cover undeclared work itself, although it may be linked to cases of tax evasion in regards indirect taxes, measures to combat undeclared work were presented in COM (2007) 628. The advantages of these problems can be significant. According to estimates, only voluntary compliance recent initiatives taken following the G20 initiative allowed the mobilization of €10 billion over a period of two years for the Member States concerned. By reducing tax evasion and avoidance, Member States may increase tax revenues, which will also provide a greater leeway to restructure their tax systems in a way that promotes better growth, as outlined in the Annual Growth Survey 2012.

2. Bank Fraud Prevention in the European Union

In recent years, the challenge is fraud and tax evasion has increased considerably. Economic globalization, technological progress, internationalization and interdependence fraud resulting tax authorities of the Member States demonstrate the strict limits of national and emphasizes the need for joint action. Therefore, on 2 March 2012, the European Council invited the Council and the Commission to rapidly develop concrete ways to improve the fight against fraud and tax evasion, including in third countries, and to report by June 2012. In April, the European Parliament adopted a resolution which reiterates the urgent need to take action in this area. An increase in the efficiency and effectiveness of tax collection is therefore crucial. Problems of fraud and tax evasion should be addressed at three levels: first, to be improved tax collection in each Member State. Secondly, it is expected the need to intensify cross-border cooperation between tax administrations of the Member States. Third, the EU should adopt a clear and coherent policy towards third countries in order to promote its international standards and ensure fair competition. Cooperation at EU level has an added value in each of these three areas.

This Communication outlines how tax compliance can be improved, and fraud and tax evasion can be reduced through better use of existing tools and adopting proposals being developed by the Commission. It also identifies areas in which coordination or further legislative action would benefit the EU and Member States. These measures should not only concern fraud and tax evasion, but aggressive tax planning. Include recourse to aggressive tax planning transactions or artificial structures and exploiting mismatches between tax systems, causing it to undermine Member States’ tax rules and exacerbating the loss of tax revenue. It is important to ensure better coherence between EU policies in general, so EU partners in international agreements for cooperation and trade to commit to good governance in tax matters in accordance with the Council conclusions of 2008. These principles should still be included in all relevant agreements between the EU and third countries should be promoted by encouraging development cooperation, as highlighted in the 2009 Communication on “Promoting Good Governance in Tax Matters” in Communication 2010 entitled “Tax and Development - Cooperating with developing countries on promoting good governance in tax matters.” Council must also approve the draft agreement between the EU quickly and Liechtenstein on the fight against fraud and tax cooperation. However, the Council should give the Commission a mandate to open negotiations similar to Andorra, Monaco, San Marino and Switzerland. Moreover, you should examine the possibilities of multilateral administrative cooperation agreements with third countries in the field of indirect taxation and participation of third countries in simultaneous controls. Recent developments in international terms “law applicable U.S. tax compliance accounts abroad” (U.S. Foreign Account Tax Compliance Act - FATCA) open new perspectives to enhance the automatic exchange of information between Member States and third countries, thereby improving transparency worldwide. So far there is no mechanism to monitor and evaluate the effectiveness of the existence of anti-corruption policies in the Member States and the EU in a coherent and transversal. Internationally, the main existing monitoring and evaluation mechanisms are Group of States against Corruption of the Council of Europe (GRECO), Working Group on bribery release and review mechanism of the OECD and the United Nations Convention against Corruption (UNCAC). These mechanisms drive signatory states to implement and enforce anti-corruption standards. However, each has characteristics that would limit their potential to effectively address issues closely related to corruption in the EU.
The complete instrument relevance EU is GRECO currently exist as enjoy the participation of all Member States. By GRECO, the Council of Europe helps to ensure minimum standards pan-European legal area. However, due to limited visibility of the evaluation process and its mechanism of intergovernmental tracking GRECO far has not generated the necessary political will of Member States effective action against corruption. Moreover, GRECO monitors compliance with a series of anti-corruption standards set by the European Council therefore focuses less on specific areas of EU law, such as public procurement. Moreover, GRECO system does not allow comparative analysis and identify trends so no EU corruption, nor actively stimulate the exchange of best practice and mutual learning.

OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions (Anti-Bribery Convention) focuses on the specific issue of bribery of foreign public officials in international business transactions and can not be extended to other areas of importance to combating corruption in the EU. The seventh annual progress report prepared by Transparency International indicates that the application of the Convention on the fight against corruption has made uneven: only four Member States have actively Convention, while 12 Member States in the implementation was done in reduced or no. Despite the existence of a robust evaluation form Working Group on bribery active and OECD political commitment related to the effective implementation of the OECD Convention on Combating Bribery is still insufficient.

There indirect macroeconomic effects of money laundering: illegal transactions may have adverse effects on legal transactions, contaminate them. For example, certain legal transactions of foreigners with Russian entities were reported as less happy because of their association with money laundering. More generally, the erosion of market confidence in the role of profits efficient signal occurs when there is generalized internal corruption, fraud and embezzlement. The money is laundered for reasons other than income tax evasion which in turn tend to bypass the tax imposition, helping to create economic distortions. There contamination resulting from the violation of the law, that when a part of the law is violated, other financial irregularities seem easy to meet.

3. Conclusions

Fraud and tax evasion are complex issues that require a coordinated response and multidimensional. Aggressive tax planning is also an issue that needs urgent attention. These are global challenges that no Member State can not face alone. This Action Plan identifies a number of actions that can be developed now and in the coming years. It is also a general contribution to the wider international debate on taxation and is meant to help the G20 and G8 at their current work in this area. The Commission considers that these actions can provide a comprehensive and effective response to the various challenges posed by fraud and tax evasion, and can contribute to increasing fairness of tax systems of the Member States, to ensure much needed tax revenue and, ultimately, to improve the functioning of the internal market.

To ensure that the actions described in this plan will be implemented properly, the Commission will put in place appropriate monitoring and dashboards particularly appropriate include regular exchanges of views within the relevant committees and working groups on the basis of detailed questionnaires.

Member States have full sovereignty over their tax collection, operation and consistency of legislation and tax administrations, the tax collection and the fight against fraud. However, measures taken at national level (or lack thereof) have a direct impact on the functioning of the internal market in general, as they distort competition between undertakings in the EU and the Member States’ ability to fulfill its commitments under Stability and Growth Pact.

The importance of fiscal policy for fiscal consolidation and growth were clearly recognizable in the process called "European semester ‘and the Euro Plus Pact. This was emphasized by the G20. Inefficient and ineffective tax collection prevents fair and ambitious fiscal consolidation.

Comprehensive analysis conducted by the Commission in the context of the 'European Semester' and recommendations embodied in both Member States and the euro area showed that many Member States are facing real and substantial tax evasion linked sometimes weak administrative capacity. A ten member states have been addressed specific recommendations.

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