

**Proposal for the European Commission concerning the
“Combating tax fraud and evasion –
Commission contribution to the European Council
of 22 May 2013”**

We propose to add the following to the Commission Contribution:

1. The national tax authorities should move towards the inspection of taxpayers that are involved in fraudulent transactions and **can be deemed as beneficiaries**, and regarding which there is a **real opportunity to collect the taxes assessed by the authorities**. The ratio of these type of inspections should be raised significantly. In the current system – due mainly to the aspiration to comply with certain statistical indicators – **the majority of the sum lost due to tax fraud and assessed by the tax authorities cannot be collected**, because the tax authorities make these assessments in connection with phantom or ‘phantomized’ companies, for they feel a lesser resistance this way.

If the largest players on the market would be treated the same way as any other taxpayer, it would have a significant impact on budgetary revenues and would help eliminating the black economy in a great extent. The effectivity indicators and incentives should be aligned to these factors.

2. The corruption of certain sectors should be confined in a significant extent by the **utilization of network analysis methods** and with the involvement of experienced professionals. The primary cause of corruption – the organised tax fraud networks of the given sector – **should also be terminated**. In these cases the whole **spectrum of a given sector** (for example sugar trade) would become the central subject of a complete inspectorial project, where the background check of the corrupted sector, the exposure of the organised tax fraud system and the elimination of its leaders would be performed by utilizing each existing inspectorial (and if possible investigative) technique, by taking full advantage of the national and EU-level databases if possible.

The method of network analysis is comprised of a holistic approach, and the utilization of complex inspectorial methods, that are based upon a **more direct and wider cooperation** at national as well as interstate and Union level.

3. In order to achieve these goals it is essential to **modernize the organisational and management structures of the member states’ tax authorities**, and to establish a new approach. It would be beneficial to establish matrix organisations at the tax authorities in order to explore organised tax fraud networks.

4. It is urgent to start with the unbuilding of **bureaucratic and administrative obstacles** that hinder the achieving of the above mentioned objectives, with special regard to the inspectorial deadlines as well as the regulations on power and competence by the comparing certain elements of procedural rules used by the EU15 member states with the procedural rules of the peripheral countries (and with the achievable objectives).

5. Along with the cooperative methods currently preferred by the Member States (such as cross-state enquiries or enquiries referring to the Standing Committee for Administrative Cooperation, or, in rare cases the direct coordination between the authorities of particular countries) a greater role must be given to the **frequent and immediate correspondence between the tax and investigation authorities of the Member States** regarding the exploration of cross-border successive transactions (and even networks); and with regard to issues on a larger scale there is a need for **continuous cooperation** in the future. Beside the cooperation and consultation mechanisms the direct cooperation of tax auditors who perform the inspections could serve as a means of achieving a greater effectivity, and on the ground of this the managerial and infrastructural support should be ensured where it is necessary and possible. It is particularly important to strengthen these forms of cooperation – for example in the relations between Romania and Hungary and between Slovakia and Hungary, because the illegal trade that exists between these three countries harms the budget of these countries (in particular by the cross-border VAT frauds) at an annual level of several thousand billions HUF (that is 10–20 billion Euros).

6. The political-economical-administrative interpenetrations are the breeding ground for corruption, and present a fundamental obstacle for the sector-neutral settlement of tax issues, respectively the non-discriminative operation of controlling/inspectorial systems in several Member States of the European Union. Therefore it is absolutely urgent to develop **legislation or obligatory standards, which can allow for the independence of administrative bodies from harmful economical and political influences**; and it is also crucial to make ‘lobby activities’ more transparent regarding these organs – in a reasonable manner (without prejudice of the business interests) – and to aim for the increased supervision of these institutions by constitutional bodies.

7. The efficiency of the Fiscalis-programs needs to be enhanced. The results of events organized in the framework of these programs need to be disseminated in a wide circle of government officers working at tax authorities, so that they can leverage them in the day-by-day operation in specific cases as well.

It is advised to organize meetings of the Fiscalis type in connection with concrete issues and tax fraud networks, specifically with the cooperation of the involved countries’ government officers (the responsible persons). The cooperation could materialize in an even more better-targeted way by the involvement of various authorities (not only tax authorities).

Budapest, May 16th, 2013

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Excerpt
from the NGO Proposal to the Country Specific Recommendations for Hungary¹
(March 2013)

<p>Prepare and implement an action plan, in consultation with the social partners and civil society, to substantially reduce corruption.</p>	<p>According to estimates by experts at the Hungarian Academy of Sciences, the economic loss caused by corruption in Hungary equals to 3 to 6 % of the GDP. Experts (including experts of several NGO's) already prepared a number of concrete proposals to reduce corruption, however, these were not implemented by the government. On the contrary, many measures were taken by the government and the Parliament, which, in fact, made corruption practices easier. Corruption is often linked to environmental harmful activities (e.g. illegal or economically unjustified real estate and other developments).</p>
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<p>Substantially improve the consultative role of social partners and civil society, and in all cases prepare well-documented assessments for the bills concerning the budget and taxation.</p>	<p>The consultation with social partners and civil society has been much weaker during the present government than during the previous ones. The main reasons for this are the following: Civil society representatives were excluded from a number of bodies where they had a seat earlier. The present government either directly denied their representation or substituted it with false representatives. (An example of this practice is the National Economic and Social Council where the genuine representatives of the civil society were replaced by persons nominated by the government.) Funding to NGO's was substantially reduced, first of all to national NGOs which were capable of seriously commenting government documents. Furthermore national funding for NGO's to produce studies, analyses of issues of national importance practically disappeared. Today NGO's have much less capacity to seriously take part in consultations with the government than a few years ago. It became much more difficult for NGO's to make their voice heard. Their opinion appears in the press (especially in the television and radio) much less than e.g. four years ago. This is partly due to</p>
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¹ http://www.foes.de/pdf/2013-03-09_CSRs_recommendations_2013.pdf

	<p>the reduced capacity of the NGO's, but mainly to the change of the attitude of the press towards NGO's.</p> <p>Quite often the deadline given for the consultation is too short to make it possible to give well-based comments. It is not uncommon that important changes in legislation are approved within a few days or even a few hours following their submission to the Parliament.</p> <p>Generally no background studies, impact assessments, calculations accompany the government proposals, and this often makes it impossible to properly evaluate these proposals. The budget bill is compiled in a way that makes it extremely difficult to compare its data with those of the previous years.</p> <p>Often individual Members of Parliament submit bills, and the present laws in such cases require neither assessments, nor public consultation.</p> <p>The government's replies to the NGO's comments are generally vague and lacking substantive information. In some instances no reply is given at all.</p> <p>Proper consultation with the stakeholders will lead to more stable public administration and better legislation. Foreign investors and also the Hungarian business sector regularly complain about unstable legislation and the malfunctioning of public administration, referring to them as causing unnecessary uncertainty and market distortion.</p>
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<p>Strengthen the capacity of all authorities so that their performance attains at least the average EU level.</p>	<p>Hungarian authorities were weakened during recent years to such an extent that they are not able to fulfil the tasks required by EU and Hungarian legislation. (See: http://www.levego.hu/en/news/2012/01/austerity_measures_forced_on_hungary_harming_european_citizens) This is detrimental also to the competitiveness of the Hungarian economy. This has a negative influence also on the efficiency of public spending as well as tax revenues.</p>
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