



Court of Audit



Algemene Rekenkamer

Bundes  
rechnungshof



# Intra-Community VAT fraud

Joint follow-up report



Brussels, September 2012





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## Chapter 1

<b>Introduction</b>	<b>7</b>
1.1 Background to the joint follow-up audit	9
1.2 Explanation of intra-Community VAT fraud	9
1.3 Developments at EU level	10
1.4 Follow-up audit framework	12
1.5 Structure of the report	12

## Chapter 2

<b>Follow-up on earlier recommendations</b>	<b>13</b>
2.1 Prevention	15
2.2 Detection	17
2.3 Repression	22

## Chapter 3

<b>Overview and future prospects</b>	<b>25</b>
--------------------------------------	-----------

## Annex

<b>List of abbreviations</b>	<b>29</b>
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# Introduction

Chapter

1



## 1.1 Background to the joint follow-up audit

In March 2009 the Supreme Audit Institutions (SAIs) from the Netherlands (Algemene Rekenkamer), Germany (Bundesrechnungshof) and Belgium (Rekenhof/Cour des comptes) published an audit report about intra-Community VAT<sup>1</sup> fraud (hereafter referred to as the 2009 joint report).

In 2011 the three participating SAIs decided to conduct a follow-up audit to this 2009 trilateral audit. The basic objective was to evaluate what action had been taken on the basis of the recommendations in the original report.

Since the launch of the current VAT system in 1993, the SAIs in the European Union have been aware that the system provides opportunities for intra-Community fraud. This was an important reason for establishing a VAT Working Group of EU SAIs. In a resolution of 12 December 2006, the Contact Committee<sup>2</sup> expressed support for its VAT Working Group's recommendation to encourage SAIs to engage in bilateral and multilateral cooperation in this area. The 2009 trilateral audit and this trilateral follow-up audit fit in this context.

This trilateral follow-up audit resulted in national follow-up reports for each of the three participating countries and in this joint follow-up report presenting the developments since the original joint report.<sup>3</sup> Institutions involved in tackling intra-Community VAT fraud, at European level and in the EU Member States, may benefit from this joint follow-up report.

## 1.2 Explanation of intra-Community VAT fraud

The EU Member States have a common VAT system. Since the EU internal market was created in 1993, goods within the internal market can be traded freely and border controls have ceased to exist. A 'temporary' VAT system was introduced, in which the zero rate applies to the delivery of goods to another EU Member State. To be eligible for this zero rate, a trader must have a valid VAT identification number<sup>4</sup> and must be able to verify that its trading partner also has a valid VAT identification number. In addition to the VAT return, traders must file a monthly or quarterly recapitulative statement of their intra-Community supplies, so that they can be monitored.

The temporary VAT system appears to be vulnerable to intra-Community fraud. A simple form of fraud is the wrongful use of the zero rate by presenting a domestic supply as an intra-Community supply. The most common and widespread form of intra-Community VAT fraud is 'Missing Trader Intra-Community Fraud' (MTIC Fraud) or 'Carousel fraud'. In the typical form of this fraud, a trader acquires goods from a trader in another EU Member State at the zero rate of VAT. The trader sells on the goods within his own country and charges VAT to the purchaser. The trader, however, does not remit this VAT to the tax authorities and makes sure that he cannot be traced ('missing trader') if he is investigated. The

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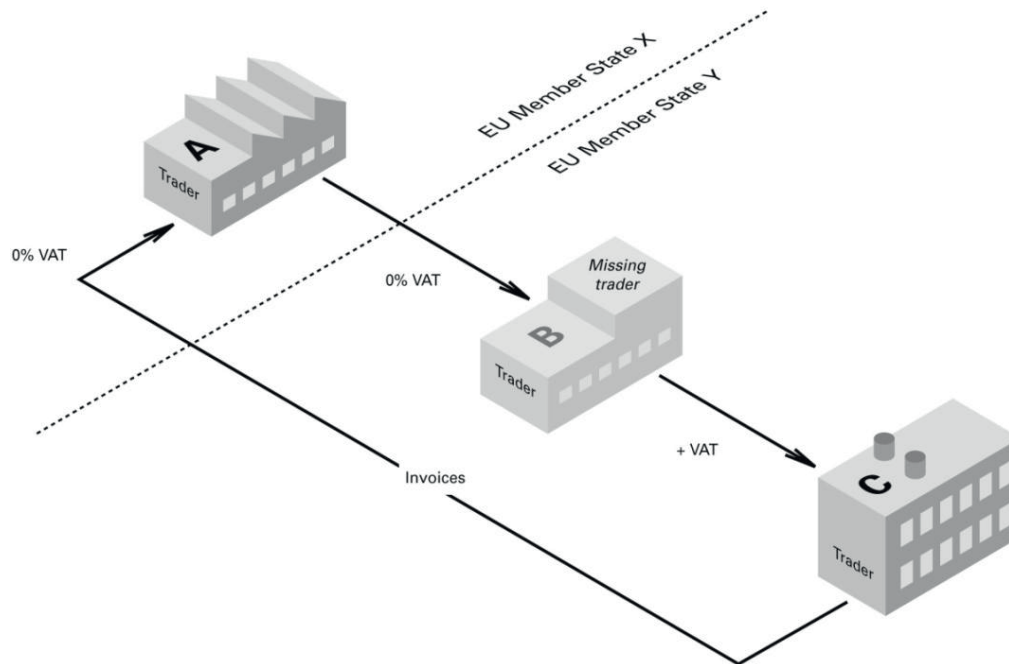
<sup>1</sup> VAT: Value Added Tax.

<sup>2</sup> Contact Committee of the Supreme Audit Institutions of the European Union.

<sup>3</sup> Neither joint report covers intra-Community supplies of services, as new legislation for those transactions came into force on 1 January 2010.

<sup>4</sup> The VAT identification number is used in relation to intra-Community transactions.

recipient of the goods sells them on and reclaims the VAT he has paid. The goods can then return to their country of origin via an intra-Community supply at the zero rate, so that the cycle can be repeated one or more times. This is why it is called carousel fraud.



The diagram shows the minimum requirements for a carousel.

- At least three traders, one of which is in another EU Member State.
- A stream of invoices between the traders.
- A trader who charges VAT (trader B) but who does not remit it ('missing trader').

Although the exact value of carousel fraud is difficult to establish, it is clear that large sums of money are involved. The Economic Committee of the European Parliament estimated in 2003 that a total of approximately €100 billion is involved in the wrongful non-payment of VAT in EU Member States each year. This includes all forms of VAT fraud but carousel fraud is recognised as a significant part of it. In 2009 the consultancy firm Reckon produced a report about the 'VAT gap'<sup>5</sup> in EU Member States, following a study carried out for the European Commission's Directorate-General for Taxation and Customs Union. The VAT gap for the EU as a whole was estimated at €106.7 billion for the year 2006. This gap includes all types of VAT fraud, including carousel fraud.

### 1.3 Developments at EU level

The 2009 joint report mentioned that for a number of years, the EU Member States, the EU's Economic and Financial Affairs Council (Ecofin) and the European Commission have been discussing ways to counteract intra-Community VAT fraud more effectively.

<sup>5</sup> The VAT gap is defined as the difference between the total accrued VAT receipts and the theoretical tax liability calculated from general economic data.

On 31 May 2006 the European Commission released a Communication concerning the need to develop a coordinated strategy to improve the fight against fiscal fraud.<sup>6</sup> Its objective was to launch a debate with all parties concerned on the different elements to be taken into account in an anti-fraud strategy at European level. In 2007, the Commission made an inventory of possible measures, comprising:

- *conventional measures* to reinforce the existing VAT system;
- *more far-reaching measures* to modify the system, namely:
  - o an option for EU Member States to introduce a general reverse charge system;
  - o taxation of intra-Community transactions in the country of origin.

As regards the *more far-reaching measures*, the European Commission is not pursuing either idea at the moment, as confirmed by its Communication of 6 December 2011.<sup>7</sup>

As regards *conventional measures*, the Commission presented a proposal for the amendment of the VAT Directive and the VAT Administrative Cooperation Regulation on 17 March 2008.<sup>8</sup> Based on this proposal the Council adopted a Directive and a Regulation on 16 December 2008,<sup>9</sup> aimed at speeding up the collection and exchange of information on intra-Community transactions by shortening the period for the submission of recapitulative statements,<sup>10</sup> automated access to specific data and the establishment of Eurofisc.

On 1 December 2010, the European Commission published for consultation its green paper on the future of VAT, entitled ‘Towards a simpler, more robust and efficient VAT system’.<sup>11</sup> The purpose of the consultation was to encourage wide-ranging debate among all economic stakeholders about the evaluation of the current VAT system and possible measures to make it more consistent with the single market and improve its capacity as a revenue raiser, while reducing the cost of compliance. The green paper deals, in particular, with the processing of cross-border turnover and other core issues relating to tax neutrality, the degree of harmonisation necessary in the single market, and the need to reduce red tape while at the same time safeguarding VAT revenue for the EU Member States.

The general conclusions from the public consultation<sup>12</sup> are as follows:

- The fragmentation of the common EU VAT system into 27 national VAT systems is the main obstacle to efficient intra-EU trade.
- The lack of harmonisation ultimately leads to highly complex taxation systems, extra compliance costs and legal uncertainty for internationally active businesses.
- Small and medium-sized enterprises, lacking the necessary resources, therefore refrain from engaging in cross-border activities.

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<sup>6</sup> COM(2006)254 final.

<sup>7</sup> COM(2011)851 final.

<sup>8</sup> COM(2008)147 final.

<sup>9</sup> Council Directive 2008/117/EC and Council Regulation (EC) no. 37/2009.

<sup>10</sup> Pursuant to article 3 of Council Directive 2008/117/EC, the provisions were due to come into force on 1 January 2010.

<sup>11</sup> COM(2010)695 final.

<sup>12</sup> COM(2011)851 final.

The European Commission pointed out that one of the striking findings is that the 1967 commitment<sup>13</sup> to establish a definitive VAT system based on the principle of taxation in the country of origin is politically unachievable. And consequently it is all the more important to promote a properly functioning system based on taxation at destination as a pragmatic and politically achievable solution.

#### 1.4 Follow-up audit framework

The 2009 report focused on the following three elements.

1. Prevention (limiting the opportunity to commit fraud), e.g. concerning the potential misuse of VAT identification numbers.
2. Detection (risk analysis, inspection, monitoring, audit and signalling) concentrating on the handling of signals from administrative systems and the international exchange of information.
3. Repression (investigation, prosecution, sanctioning and settlement) focusing on the organisation of the investigation and prosecution of fraud cases, and the management information available on the results of audits, investigations and fiscal handling of such cases.

The 2009 joint report presented a number of conclusions and recommendations for each of these three elements. The follow-up audit is designed to identify what progress has been made on each recommendation in the original report. This follow-up report therefore has a similar structure to the 2009 report, focusing once again on prevention, detection and repression (see chapter 2, § 2.1, § 2.2 and § 2.3).

#### 1.5 Structure of the report

Chapter 2 of this report presents detailed observations about the follow-up on each recommendation in the original report. Based on these detailed observations, chapter 3 presents an overview of the observations and the future prospects for tackling intra-Community VAT fraud.

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<sup>13</sup> First Council Directive 67/227/EEC and Second Council Directive 67/228/EEC of 11 April 1967.

# Follow-up on earlier recommendations

Chapter

2





In this chapter we present the follow-up on the recommendations made in the 2009 joint report with respect to prevention (§ 2.1), detection (§ 2.2) and repression (§ 2.3). The recommendations are presented in separate boxes, followed by the status at the time of the follow-up audit. Developments at EU level are included where applicable and up to the closing date of the audit (1 May 2012).

## 2.1 Prevention

As explained in the 2009 joint report, tax authorities attempt to prevent intra-Community VAT fraud by keeping potential fraudsters out of the system. This requires a risk analysis when issuing VAT numbers<sup>14</sup> and the timely withdrawal of unused VAT numbers. Another important issue is to prevent potential fraudsters taking over a going concern that has an active VAT number.

Since 2009, EU standards for registration and deregistration have not been changed to give tax authorities more scope to act if fraud (or intended fraud) is suspected.

### *Status of each recommendation*

#### Assess requests for VAT numbers preventively.

Preventive assessment (before VAT numbers are issued) is important; all available information should be used as early as possible. Although there is a tendency to issue VAT numbers quickly, the abuse of VAT identification numbers should be prevented wherever possible. Since prevention has inherent limitations, there is also a need to focus on the early detection of abuse, once VAT identification numbers have been issued.

In Belgium the tax authority has drastically shortened the average time for issuing a VAT number. In response to a recommendation made in the 2009 national audit report of the Belgian Court of Audit, the Belgian tax authority also changed its policy on non-active VAT numbers. An investigation will now be started if nil declarations are submitted for one year instead of two years. If it finds that there is no genuine economic activity, the tax authority will withdraw the VAT number.

In Germany prevention is given high priority. There is no legal deadline for processing applications for a VAT number. Applicants have to complete a special questionnaire, depending on their legal form. Questionnaires and checklists for VAT number applications are evaluated regularly to reflect the latest developments, taking into account the behaviour of fraudsters. Registration applications can be rejected if an applicant does not meet the conditions for being granted trader status. Records show that the number of such cases was 19 % lower in 2010 than in 2009. The *Länder* consider this a positive trend. Due to the legal provisions in Germany, newly registered traders are obliged to submit electronic VAT returns on a monthly basis for a period of two calendar years including the year the business started.

<sup>14</sup> The term 'VAT number' is used in registration procedures and domestic transactions. In Germany a trader needs an additional VAT identification number for intra-Community transactions. In Belgium and the Netherlands the VAT identification number is the VAT number preceded by the applicable country code.

In the Netherlands the Chambers of Commerce and the tax administration's regional offices are involved in the registration process. The procedure for the preventive assessment of applications for VAT numbers has not changed since 2009. In 2011 the tax administration stepped up its efforts to ensure that risk signals receive proper attention in the registration phase. To avoid abuse of existing VAT numbers, the tax administration has launched an initiative to approach traders with no economic activity that file nil returns for a consecutive period of 12 months. If it finds that there is no reason to maintain the VAT registration, it withdraws the VAT number.

**Enhance information system support for risk signalling and prioritise the handling of warning signals.**

Information system support is necessary to generate warning signals (risk selection) and to cope with time constraints (manual assessment is not feasible). Data mining/risk profiling techniques can be helpful in this respect.

As in 2009 risk selection in Belgium is still based on warning signals that require additional investigation. A new development is that additional investigations at a trader's premises are no longer performed by the local tax office that dealt with the application for activation. As of 2012 this task is performed by the investigation services. A service level agreement was concluded, providing originally for 4,200 local investigations in 2012. This represents about 6 % of the applications for a new VAT number. Due to other priorities, the start of the service level agreement has been postponed till the second half of 2012.

In Germany the use of checklists is obligatory and meeting one of the risk criteria on the checklist is sufficient reason to carry out further investigations. Querying various databases is an important part of the procedure. To facilitate this process the tax administration is working on electronic processing of the questionnaires, so that the data can be matched against data from other sources.

In the Netherlands no information systems have been introduced since 2009 for the purpose of risk signalling in the registration process. The tax administration aims to exploit early warning signals from Eurofisc and other sources to detect potentially fraudulent traders at an early stage.

**Make use of information on prior offenders in risk assessment.**

Information on prior offenders should be included in the assessment in view of the risk of recidivism.

At present, the Belgian tax authority does not make use of information on prior offenders in preventive assessments. As there is common agreement that this type of information should form a warning signal, a project to reintroduce this kind of information is in progress.

In Germany tax officials have to query a special database (Zauber) during the registration procedure. Whenever the query provides an indication, the tax officials have to take appropriate measures before issuing a VAT number.

The Dutch tax administration has started to include subject-oriented information about taxpayers in its risk assessments. However, in the preventive phase this does not yet play a key role. The State Secretary for Finance is in favour of having greater scope to reject registration of potential fraudsters, but at European level there is no agreement yet on this issue.

#### Pay more attention to risks in the transfer of company ownership.

More attention should be paid to transfers of ownership in addition to risk analyses of start-up companies.

The follow-up audit shows that the 2009 recommendation to pay more attention to the transfer of company ownership is still valid.

Recent findings by the Belgian tax authority reveal that only 5 % of missing traders made use of a new (recent) VAT number. The other 95 % used VAT numbers obtained via transfer of company ownership. This illustrates the need to monitor the flourishing trade in empty shell companies. Keeping track of transfers of company ownership is too labour-intensive a task for tax authorities alone. This problem can only be solved by close collaboration with other public services.

In Germany the risks of company ownership transfers are well known. The issue was raised by the *Länder*. For instance, there was a proposal focusing on traders using the legal form of private or other partnerships, requiring them to submit monthly VAT returns after significant changes to their stakeholders' shareholdings or composition. However this proposal was rejected, because the disadvantages were believed to outweigh the advantages.

The Dutch tax administration is aware of the risks involved in transferring company ownership. However there is no computerised information system available to keep track of changes in ownership (shareholdings). In addition, new risks are posed by fraudsters using foundations and VAT-exempted companies with active VAT registration numbers.

## 2.2 Detection

To detect intra-Community VAT fraud it is possible to analyse and distil signals from information available to the tax authorities, such as declarations of intra-Community supplies and VAT returns. Detection can also result from signals received through information exchange with the tax authorities in other EU Member States.

### *Status of each recommendation*

#### *Administrative systems*

#### Log verification of VAT identification numbers for risk analysis purposes.

Logging VAT identification number verifications is useful to provide early warning signals and risk profile information. Further research is recommended to identify best practices in this respect.

In Belgium data on enquiries about the validity of VAT identification numbers are still stored in a log file and used to provide early warning signals.

In Germany requests for verification of VAT identification numbers are still being logged, but this information is now used in a different way. Following an evaluation, the system for detecting risk-prone cases was modified to make it more effective.

The Dutch tax administration investigated the possible benefits of logging verifications of VAT identification numbers. It concluded that it makes sense to use information on VAT number verifications for risk analysis purposes. The new EU Regulation (904/2010) allows the tax administration to use the logging details from the EU website as of January 2013.

#### **Speed up VIES<sup>15</sup> processing and exchange of VIES information.**

VIES processing takes too long. The process should be speeded up and VIES information should be exchanged earlier.

Due to changes in EU legislation, the deadline for the submission of recapitulative statements was shortened, along with the deadline for the electronic transfer of recapitulative statement data to the VIES system. However traders who have made only limited intra-Community supplies in the current quarter and in the last four quarters may still submit recapitulative statements on a quarterly basis. The threshold was set at €100,000, but was reduced to €50,000 as of 1 January 2012. This exception applies in Belgium, Germany and the Netherlands.

In principle these changes speed up VIES processing and exchange of VIES information. In the past, up to six months could elapse between the date of an intra-Community supply and the time when the EU Member State of the intra-Community acquisition was informed. This period has been reduced to a maximum of two months (or four months in case of the quarterly scheme) since the new EU legislation came into effect. The more frequent submission of recapitulative statements has a positive effect on the exchange of VIES information between EU Member States via Eurofisc.

Findings in Belgium show that in practice the vast majority of large-scale fraudsters make use of the quarterly scheme.

In the Netherlands many traders make use of exemptions to the obligation to submit monthly recapitulative statements, especially small and medium-sized enterprises.

#### **Match traders' VIES declarations against their VAT returns.**

Intra-Community supplies and the amounts concerned should be checked as to their consistency with the supplies in the same trader's VAT returns.

In Belgium matching variances are numerous but do not usually indicate major fraud.

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<sup>15</sup> VAT Information Exchange System.

In Germany a matching procedure is not yet in place. The Bundesrechnungshof recently reported to the Federal Ministry of Finance and the Appropriations Committee on the outstanding issue of the electronic matching of intra-Community supplies in recapitulative statements against VAT return data. The Bundesrechnungshof recommended implementing such a procedure as soon as possible. The Ministry of Finance approved this recommendation. A working group has been established and has already presented several proposals.

As in 2009, the Dutch tax administration is still matching the consistency of traders' VIES declarations and their VAT returns on a quarterly basis.

**Harmonise chargeability rules to help overcome matching problems with VIES information received from other EU Member States.**

Differences in chargeability rules are one of the underlying causes of matching problems with VIES information. Harmonisation is therefore necessary to reduce the number of matching variances.

The harmonisation of chargeability rules is still an issue for the Belgian, German and Dutch tax authorities. In its introductory considerations Council Directive 2008/117/EC states: *'In order for the cross-checking of information to be useful for combating fraud, intra-Community transactions should be declared for the same tax period by both the supplier and the purchaser or the customer.'* Further discussion and action at EU level is still needed to realise this intention.

As in 2009, harmonisation of chargeability rules, regarding the allocation of transactions to time periods, is still necessary to help solve this problem.

**Consider 'transaction-by-transaction' matching as a long-term solution.**

Matching at a lower level of aggregation is a solution to be considered for the future. This implies matching at transaction level.

This is still a valid recommendation, but due to its complexity transaction-by-transaction matching may only be feasible in the long run.

**Include matching variances in the risk analysis system.**

Matching variances as an indicator in combination with other signals may be included in the risk management system.

In Belgium the risk analysis system makes use of matching variances in two different ways.

- In the general fight against fraud, variances between data declared in national VAT returns and data included in recapitulative statements received via VIES from other EU Member States are used in a data mining system. This means the variances are one of several elements for selecting risk-prone cases. The speeding up of VIES has no impact here since data mining is performed annually. Also, the biggest variances have to be investigated by the audit offices.

- In the fight against carousel fraud, matching variances are used as a risk factor at the end of every quarter. For the months in between, other parameters are used.

In Germany matching with VIES data received from other EU Member States is still limited to traders who are not entitled or only partly entitled to deduct input tax. A group of experts is working on a project to include traders who are fully entitled to deduct input tax.

Every month the Central Liaison Office (CLO) of the Dutch tax administration passes on ten remarkable mismatches per region for further investigation. The analysis of these mismatches usually uncovers administrative variances and errors, but rarely fraud.

#### Enhance risk management of the verification of VAT returns.

The risk management system for verification of VAT returns can be enhanced by using all available information sources in combination.

As in 2009, Belgian tax authorities make extensive use of data mining techniques, distinguishing various groups of taxpayers and applying about 100 variables. These techniques are used to identify files for closer inspection.

In Germany risk analysis normally takes place whenever a taxpayer submits a VAT return. This may be monthly, quarterly or yearly. The risk management system consists of various components with different objectives (e.g. detecting fraud cases or selecting cases for VAT audit). Evaluation of the components can result in new warning signals and the scrapping of those that have not proved useful. Well-trained staff in VAT departments have to process those warning signals and take the necessary measures. One of the latest developments is that during the processing of VAT returns, the data in these returns are matched electronically against data in other databases.

As in 2009 the Dutch tax administration still employs a risk analysis system. The risk selection criteria are updated on a regular basis.

#### *Information exchange between EU Member States*

#### Evaluate the effectiveness of information exchange between EU Member States.

The effectiveness of information exchange between EU Member States with respect to the prevention and/or detection of fraud is not evaluated. Such an evaluation is warranted, because the audit indicates that only limited use is made of the potential of information exchange. The audit observations indicate that information requests usually help explain administrative variances (due in part to the unreliability of VIES) but rarely result in the detection of fraud.

At European level an evaluation of the use of SCAC<sup>16</sup> forms was conducted in 2011, following complaints about the misuse of certain types of these forms. EU Member States accepted the proposal to only use one SCAC form in future.

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<sup>16</sup> Standing Committee on Administrative Cooperation.

In Belgium, Germany and the Netherlands the tax administrations did not evaluate the effectiveness of information exchange between EU Member States systematically. However, based on their experience, the tax administrations are convinced that the exchange of information between fraud units (SCAC 383) is useful. They also believe that the introduction of Eurofisc has enhanced the direct exchange of information between fraud units.

**Handle information requests (article 5, EU Regulation 1798/2003) on time.**

Information exchange is time-consuming and in many cases the deadlines are exceeded.

The new EU regulation on administrative cooperation states in its introductory considerations that *'the time limits laid down in this Regulation for the provision of information are to be understood as maximum periods not to be exceeded'*. This joint follow-up audit reveals however that timely response to information requests is still a problem.

In Belgium the use of international data exchange via standardised SCAC forms is still limited. The years 2008, 2009 and 2010 even show a further decrease. No progress has been made on the timely handling of foreign requests by the Belgian tax administration. On average about 46 % of requests were not answered in time in 2008, 2009 and 2010.

In Germany, as in Belgium, the number of requests has decreased. The percentage of late replies by the German tax administration fell from 38 % in 2008 to 25 % in 2010. The compilation and analysis of information about national risk-prone traders are one of the main tasks of the KUSS unit in the federal finance office. Since autumn 2007 KUSS has stepped up its efforts to fulfil this task. It analyses the replies to information requests given by other EU Member States. The information is made available to the competent tax authorities.

Based on information from the Dutch tax administration the timely exchange of information is still a problem. However, information exchange between fraud units usually takes place on time and is given proper priority. The CLO estimates that in 2010 and 2011 almost 35 % of standard information requests (SCAC 2004) were answered late by the Dutch tax administration. The main cause of delays is the time tax regions need to answer the questions and send the answers back to the CLO. Between 2009 and 2011 almost 50 % of Dutch information requests were answered late by other EU Member States.

**Enhance information exchange between fraud units and broaden support for Eurocanet as valuable means of information exchange.**

Eurocanet is considered a successful tool in Belgium and the Netherlands. The German tax authorities do not actively participate in Eurocanet. Since it would be beneficial to broaden the scope of Eurocanet to encompass as many EU Member States as possible, it is recommendable to remove any obstacle that might prevent its use.

Since November 2010 Eurofisc has replaced Eurocanet and has enhanced information exchange between EU Member States. Within Eurofisc four working fields are distinguished:

Eurofisc working field	Number of participants	Chair
1: Missing traders	27 (all EU Member States)	France
2: Cars, planes and boats	20	Luxembourg
3: CPC <sup>17</sup> .4200	20	Austria
4: Observatory	27 (all EU Member States)	Netherlands

The introduction of Working Field 4 (Observatory) within Eurofisc promotes the rapid exchange of information about new developments and fraud patterns.

Germany did not actively participate in Eurocanet, because the legal basis was considered inadequate. With the establishment of Eurofisc such a legal basis is in place and Germany is now an active participant in the new network.

The tax authorities in Belgium, Germany and the Netherlands consider cooperation in Eurofisc to be beneficial, but it is still too early to fully evaluate Eurofisc's effectiveness.

### 2.3 Repression

Repression involves investigation, prosecution, sanctioning and settlements in fraud cases. Like the 2009 joint report, this follow-up report focuses on the repression of fraud in the three participating countries and on the management information available on the results of investigations, prosecution and settlements.

#### *Status of each recommendation*

##### **Arrange strong cooperation between investigators/prosecutors and the tax authorities.**

Strong cooperation between investigators/prosecutors and the tax authorities is necessary for successful repression.

No new developments occurred in Belgium regarding cooperation between the tax authorities and the public prosecution service.

In Germany KUSS has a coordinating responsibility with respect to repression. Some improvements since the 2009 joint report may be noted.

- KUSS informed the central contact points in the *Länder* by means of 'newsletters' at an early stage.
- KUSS organised coordination meetings with relevant officials (at home and abroad) during the processing of specific cases to discuss further activities.
- The Ministry of Finance and the *Länder* agreed on a special audit concept to detect 'missing traders'.

<sup>17</sup> CPC = Customs Procedure Code.



Despite these improvements, a few obstacles to cooperation still exist, mainly caused by different expectations about the exchange of information. KUSS and the central contact points in the *Länder* have been holding regular meetings, aimed at exchanging experiences and discussing recent trends and best practices for early detection of fraudulent arrangements. KUSS states that the *Länder* tend to provide relevant information only when they expect to obtain additional information in return that benefits the assessment or prosecution of individual cases.

With respect to the Netherlands, the 2009 joint report noted that close cooperation already existed between the different authorities. This has not changed since.

#### Provide management information on fraud incidents and VAT losses.

Management information on cases of intra-Community VAT fraud and related VAT losses is limited. The total loss due to carousel fraud is not known. Information about these losses is valuable to measure the effectiveness of anti-fraud policies and to decide on what resources to devote to tackling fraud.

In Belgium management information is available about the number of carousel cases being discovered, the VAT losses involved and the fines imposed. Compared to the situation at the beginning of the century, losses have decreased considerably, but remain high. A few major fraud cases still account for most of the amount to be collected.

As in 2009 the German tax authority has no management information on the number of intra-Community VAT fraud cases and related VAT losses. This was underlined by the federal government's answers to a request from politicians concerning 'measures to avoid VAT fraud and evaluation of existing strategies to reduce the VAT gap'.<sup>18</sup> The Federal Ministry of Finance said this was the responsibility of the *Länder*. It has no information from the *Länder* on the amount involved and the detection of fraud cases.

In the Netherlands, management information about intra-Community VAT fraud has improved since 2009. Monthly management reports present information about VAT carousel fraud cases and estimates of the fiscal damage caused by this type of fraud. The effort to investigate signs of intra-Community VAT fraud has increased considerably since 2009. This is a result of the 2009 national audit report, because the State Secretary for Finance has committed himself to devote more resources to this purpose based on the recommendations in the 2009 report.

#### Low collection rates of VAT fraud losses highlight the importance of prevention and early detection.

The available information indicates that carousel fraud produces relatively high losses compared with other frauds, while the collection rate of amounts due is low.

In Belgium and the Netherlands the recovery rate of carousel fraud losses is still low.

<sup>18</sup> This answer is published as parliamentary paper 17/5751 of 5 May 2011.

In Germany the tax authority's approach to VAT fraud is unchanged. According to the Federal Ministry of Finance, neither the value of VAT losses nor the collection rate of tax amounts due is subject to evaluation.

In all three countries the tax administration focuses on prevention, early detection and quick response.

# Overview and future prospects

3



The observations on the follow-up to the 2009 joint report indicate that in some areas progress has been made on tackling intra-Community VAT-fraud. However in other areas the situation has not changed significantly since the 2009 joint report.

Progress is visible for example in the tax authorities' approach to inactive traders with valid VAT identification numbers. Investigations of these cases start earlier and VAT numbers are withdrawn if necessary. Tax authorities also explore ways of improving risk analysis and keeping track of fraud patterns. The speeding up of VIES processing, pursuant to EU legislation, helps to detect fraud signals earlier and consequently to stop losses earlier. The establishment of Eurofisc is also considered to be a positive development, because it promotes cooperation between fraud units in all EU Member States.

There are also areas where we do not observe significant positive developments. For example, more attention still needs to be paid to preventing abuse of existing VAT numbers by transferring company ownership. In many cases fraudsters use these transfers as an alternative to establishing a new company. Since 2009, EU standards for registration and deregistration have not been changed to give tax authorities more scope to act in cases where fraud (or intended fraud) is suspected.

Although new EU rules introduced monthly recapitulative statements, this did not reduce the problems with matching VIES data. An important precondition – that 'transactions should be declared for the same tax period by both the supplier and the purchaser or the customer' – has not been fulfilled. This is one of the obstacles to the tax authorities' improving their matching procedures. Harmonisation of chargeability rules is still an issue.

The timely handling of information requests by using SCAC forms<sup>19</sup> remains a problem. Systematic evaluations of the effectiveness of this type of information exchange to detect fraud have not been conducted.

The information available to the tax authorities indicates a reduction in the losses due to carousel fraud in Belgium and in the Netherlands. This is partly due to earlier detection of fraud schemes through risk analysis and international exchange of risk signals between fraud units of EU Member States. As in 2009, the German federal tax administration was not able to provide quantitative information about carousel fraud losses, because this is the responsibility of the *Länder*.

Looking at the future, carousel fraud will clearly remain a threat as long as the current 'temporary' EU VAT system is in place. This means that tax authorities need to devote constant attention to this type of fraud. Relaxing the efforts to tackle intra-Community fraud could easily result in increased VAT losses, because of the late detection of carousels. Systematic evaluation of the effectiveness of anti-fraud measures and continuous monitoring of carousel fraud losses and new developments and trends in fraudulent behaviour are essential to be able to focus on the most valuable instruments to tackle this kind of fraud.

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<sup>19</sup> Especially SCAC 2004 forms.

At EU level the results of the joint follow-up audit again illustrate the need for EU member states to work together closely and exchange information to tackle carousel fraud. In this respect it is important to harmonise VAT procedures and standards, e.g. for registration/deregistration of VAT identification numbers, and chargeability rules. The cooperation of fraud units via Eurofisc remains another important element for the future.

The results of this joint follow-up audit demonstrate the added value of SAI cooperation in this area and will help them to learn from one another's experience. EU institutions involved in tackling intra-Community VAT fraud may also benefit from this joint follow-up report, for example from the suggestions for improvements in EU legislation. The three SAIs involved in this trilateral audit will continue to monitor progress made in combating intra-Community VAT fraud, *inter alia* via the VAT Working Group of the Contact Committee of the SAIs of the EU.

## List of abbreviations





CLO	Central Liaison Office
CPC	Customs Procedure Code
Ecofin	Economic and Financial Affairs Council of the European Union
EU	European Union
Eurocanet	European Carousel Network
KUSS	Coordinating unit for special VAT audits and related tax investigations (Germany)
MTIC	Missing Trader Intra-Community Fraud
SAI	Supreme Audit Institution
SCAC	Standing Committee on Administrative Cooperation
VAT	Value Added Tax
VIES	VAT Information Exchange System

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