



European Commission Hercule programme  
International conference  
'Fighting VAT Fraud in the Baltic Region -  
Preventive, Legislative, and Investigative Side'



19-20 September 2006, Palanga

On 18-21 September 2006 in Palanga the International Conference “Fighting VAT Fraud in the Baltic Region – Legislative, Investigative and Preventive Side” was held.

Hereby we present the answers to the questions on the value added tax fraud, problems and important issues given by the representatives of the European Anti-Fraud Office, HM Revenue and Customs of Great Britain, Swedish Tax Agency and Latvian Financial Police department and Estonian Tax and Customs Board on the value added tax fraud, problems and important issues.

***Questions are answered by OLAF B7 – VAT task force officer George-Peter Block***

OLAF is the Anti-Fraud Office of the Commission. The office is a service platform for the Member States. The VAT team in OLAF's Directorate B co-ordinates activities of Member State authorities ie by co-ordination meetings if they wish, supply intelligence during the period of the investigation and supports rogatory commissions in co-operation with the Magistrates Unit in OLAF in the time of criminal proceedings.

2. There are no changes after the accession only that the fraudulent organizations include the new Member States.
3. The cases normally represent extreme high losses of VAT for the budgets. Up to more than 100 million EURO per case is possible. There are all Member States affected in the same way and with all products. It is possible that some Member States co-operate more or invest more in staff and equipment than others.
4. The EU promotes a closer and more intensive co-operation between the Member State authorities (see Art. 280 EC Treaty, Regulation 1798/03 EC). VIES information exchange and parallel FISCALIS audits are some measures. The installation of the OLAF VAT team underlines the importance which the Commission gives to the fight against VAT fraud.

***Questions are answered by Rod Stone, Deputy head of Countering Organised Criminal Attacks (VAT) from Great Britain***

***What is the experience of Great Britain in disclosure and investigation of VAT fraud?***

The UK has in place a comprehensive risk and intelligence service for the identification of VAT fraud, with dedicated pathways to and from the VAT Compliance and Enforcement Directorates for referral of appropriate cases to be investigated by the Criminal Investigation Directorate

***Which institutions combat these crimes in your country? How does the cooperation go on?***

Tax fraud and related money laundering offences are the sole responsibility of HM Revenue and Customs. However both the Police Service and the Serious Organised Crime Agency (SOCA) have a remit to investigate money laundering in isolation but if it is subsequently established that the predicate offences involve tax fraud they will seek the assistance of HM Revenue and Customs. There are in place agreed procedures and single points of contact for the exchange of information .

***What, in your opinion, are the general measures to reduce the number of VAT fraud cases?***

HM Revenue and Customs identified MTIC fraud as its top fraud priority. It has devised a strategy to combat this type of fraud by coordinating the activities of all the key Directorates to ensure that

all possible interventions are undertaken these include, VAT Compliance, Criminal Investigation, Intelligence, Customs Frontier and Direct Tax .

Recently, the strategy has been strengthened in these key areas:

- \* strengthening checks at VAT registration to better identify fraudulent and bogus applications
- \* redeploying almost 600 additional VAT compliance officers to verify repayment claims from those suspected of trading in contrived supply chains tainted by fraud
- \* using barcode scanning technology to better identify and track goods involved in the fraud
- \* work to strength international cooperation with both the EU Member States and non EU countries
- \* an increased specialist resource targeted at criminal investigation
- \* the introduction of legislative measures to clarify and strengthen UK powers to tackle MTIC fraud
- \* an application by the UK to the European Commission for agreement to introduce a new accounting system (known as reverse charge) for goods commonly used in MTIC fraud.

***Questions are answered by Swedish TAX Agency VAT control expert Torbjorn Larsson***

***Please introduce briefly the project under implementation. What are the foreseen goals, measures? What are the results achieved already? What sort of experience could be shared with the other states of the European Union?***

The MTIC-project is a national project and started 1 January 2006 and is running to the 31 December 2007.

The goals for the project are to:

- Estimate the amounts of VAT lost in Sweden caused by MTIC VAT frauds.
- Estimate the total amounts of VAT lost as a result of MTIC VAT frauds in which companies registered for VAT in Sweden have been involved
- Find successful strategies to combat various kinds of MTIC VAT frauds
- Suggest other measures, such as changes of legislation, for the future

The work is mainly going to be carried out by tax audits and when appropriate in cooperation with other agencies such as the National Economic Crimes Bureau and the Customs.

At present we can see that Sweden often is used in carousel VAT frauds by hosting conduit companies trading with mobile phones. There is no loss of VAT in Sweden in these cases. The common features of these companies are that they have their bank accounts in a tax haven, the company directors are not resident in Sweden and that the goods hardly ever pass through Sweden.

***Questions are answered by Mr. Maris Vitols, Head of Information Management Departament, Latvian Financial Police department of the State Revenue and Estonian TAX ant Customs Board officer Martin Tuulik.***

***What responsibility is foreseen for VAT fraud?***

***Estonian officer Martin Tuulik: Estonian Penal Code § 386. Fraudulent miscalculation of tax***

(1) Presentation, in a tax return or other document submitted to a tax authority, of a tax calculation or false information due to which the amount of tax due is smaller than the amount of tax to be paid pursuant to a tax law, or the amount returned, compensated or set off is greater than the amount to be returned, compensated or set off pursuant to law, if a punishment for a misdemeanour has been imposed on the offender for the same act, or if such act results in a tax underpayment, or tax return, set-off or compensation without legal basis in the amount of 500 000 kroons or more is punishable by a pecuniary punishment or up to 3 years' imprisonment.

(2) The same act, if committed by a legal person, is punishable by a pecuniary punishment.

**§ 390. Obstruction of activities of tax authority**

(1) Failure to submit a tax return or other information by the due date, failure to register with a tax authority, tampering with a meter or preventive measure, submission of false information or knowing submission of incorrect documents to a tax authority, failure to comply with the requirements established for the keeping of records of goods, failure to perform an order of a tax authority or obstruction of the activities of a tax authority in any other manner, if a punishment for a misdemeanour has been imposed on the offender for the same act or the act results in a tax underpayment in the amount of 500 000 kroons or more, is punishable by 1 to 5 years' imprisonment.

(2) The same act, if committed by a legal person, is punishable by a pecuniary punishment.

If deeds, stated in the Article 386 or 390 of the Penal Code, are committed, but the sum is less than 500 000 kroons, the infringement is resolved in the frames of misdemeanor proceedings by the body conducting misdemeanor proceedings of the Tax and Customs Board local office.

**Latvian officer Maris Vitols:** There are one combined responsibility for fraud, VAT fraud is not provided as special standart in Latvia Criminal law

FRAUD Latvia Criminal law, state Nr.177

1).for foreign property fraud or fraud to have rights on such property:

imprisonment up to 3 years, or arrest, or forced labour, or penal money up to sum of 60 minimal salaries (about 7700,- EUR)

2. for fraud if it is made repeatedly or if it is made by organized group

imprisonment up to 6 years, or penal money up to sum of 100 minimal salaries (about 12000,- EUR)

3.for fraud if it is made largely (about 6500,- EUR) or if it is made to have illegal goods (narcotics, ammo e.t.c.)

imprisonment from 5 to 13 years, or penal money up to sum of 150 minimal salaries (20000,- EUR), with confiscation of property or without it.

***Could you, please, name the economy spheres, in which VAT fraud is most common?***

**Estonian officer Martin Tuulik:** VAT frauds, as means to obtain cash, are spread in many spheres, being in addition connected with other frauds like legalizing adulterated fuel, sale of stolen metal or timber, paying envelope salaries etc.

**Latvian officer Maris Vitols:** All trade based economics spheres (service, trade goods e.t.c.) with VAT charge.

***Which institutions combat these crimes in your country? How does the cooperation go on?***

**Estonian officer Martin Tuulik:** The prevention, detection and combat of tax related criminal offences is the main task of the Investigation Department of Tax and Customs Board (TCB is functioning in the field on government of ministry of Finance). Pre-trial investigation and surveillance activities of TCB are regulated by the code of Criminal Procedure and by the

Surveillance Act. The same legal acts provide Police with the competence for conducting pre-trial investigation and surveillance operations.

***Latvian officer Maris Vitols:*** There are State revenue service with Finance police board who combat VAT fraud. FPB is a special structure with exclusive rights to combat VAT fraud, and it is one of FPB priorities.

***What are typical models of VAT fraud?***

***Estonian officer Martin Tuulik:*** Typical models of VAT fraud are so called *invoice factories*- companies without real economic activities- missing traders, who sell fictitious invoices together with VAT to acting companies, facilitating this way tax minimization and extraction of company cash.

***Latvian officer Maris Vitols:*** VAT fraud related to chain transactions, missing traders involved. VAT fraud related to international transaction with double invoicing