



Uganda Revenue Authority


DEVELOPING UGANDA TOGETHER

MISSING TRADERS AND VAT FRAUD SCHEME

SCOPE

- A. BACKGROUND
- B. KEY SECTORS
- C. SCHEME DRIVERS
- D. INVESTIGATIVE TOOLS
- E. SCHEME FINDINGS
- F. LEARNING OUTCOMES
- G. CHALLENGES
- H. WAY FORWARD

BACKGROUND: THE PERSPECTIVE OF THE “MISSING TRADER” SCHEME



<p>The “missing trader” is one who in the business chain does not supply any goods or services but “payment” is made to create notional cost of goods sold</p> <p>Tax Evasion Scheme where business entities minimize their tax liability by establishing multiple companies to issue fictitious invoices”</p>
<p>Business entities try to mimic a genuine trading process by trying to meet all the legal requirement of a “supply” for tax purposes</p>
<p>Tax Evasion Scheme where business entities minimize their tax liability by establishing multiple companies to issue fictitious invoices”</p>
<p><i>This scheme appears to delink and hide the final economic beneficiary of the purchases.</i></p>

SECTORS-WISE MISSING TRADER

General Trade



Construction



Manufacturing



Hotels



SECTOR WISE CONT...

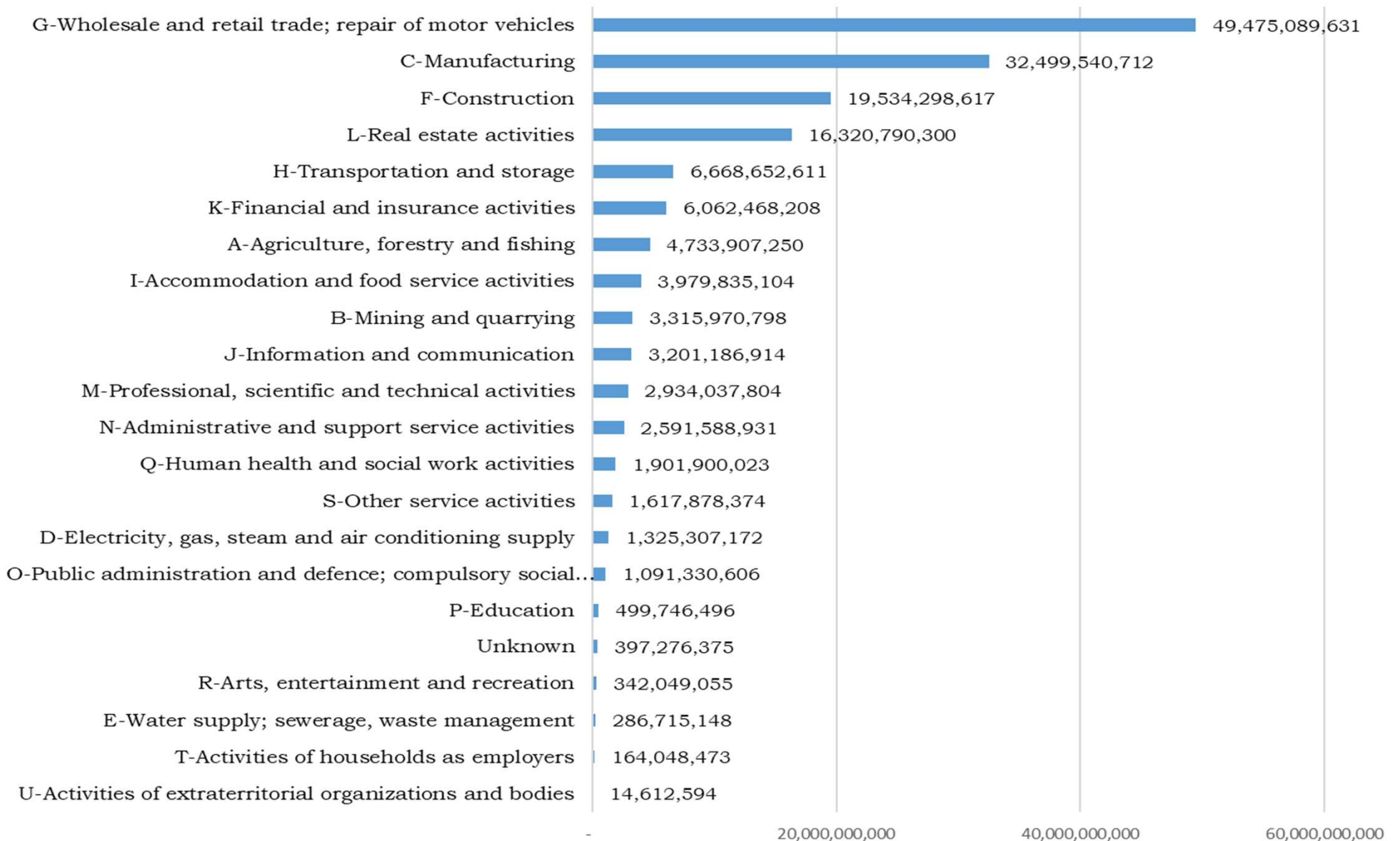
Sector	No. of Beneficiaries	No. of Generators
46-Wholesale trade, except of motor vehicles and motorcycles	553	97
47-Retail trade, except of motor vehicles and motorcycles	403	26
41-Construction of buildings	164	14
45-Wholesale and retail trade and repair of motor vehicles and motorcycles	100	10
55-Accommodation	82	2
18-Printing and reproduction of recorded media	69	2
10-Manufacture of food products	63	1
42-Civil engineering	42	#N/A
82-Office administrative, office support and other business support activities	41	5
52-Warehousing and support activities for transportation	34	#N/A
56-Food and beverage service activities	29	1
71-Architectural and engineering activities; technical testing and analysis	28	3
43-Specialized construction activities	25	4
49-Land transport and transport via pipelines	25	1
81-Services to buildings and landscape activities	21	#N/A
68-Real estate activities	21	2
61-Telecommunications	21	2
17-Manufacture of paper and paper products	19	#N/A
35-Electricity, gas, steam and air conditioning supply	19	#N/A
96-Other personal service activities	17	3
58-Publishing activities	17	1
24-Manufacture of basic metals	16	1
20-Manufacture of chemicals and chemical products	15	#N/A
01-Crop and animal production, hunting and related service activities	15	#N/A
11-Manufacture of beverages	14	#N/A
36-Water collection, treatment and supply	12	#N/A
94-Activities of membership organizations	11	1
23-Manufacture of other non-metallic mineral products	10	#N/A
73-Advertising and market research	10	#N/A
16-Manufacture of wood and of products of wood and cork, except furniture	10	#N/A
95-Repair of computers and personal and household goods	10	#N/A

STATION WISE MISSING TRADER

Station	No. of Beneficiaries	No. of Generators
KAMPALA STATIONS	1645	97
JINJA	48	2
KYALIWAJALA LIAISON OFFICE	37	1
MUKONO	34	#N/A
ENTEBBE	28	2
LIRA	23	#N/A
NATETE LIAISON OFFICE	23	1
NANSANA LIAISON OFFICE	22	#N/A
MBARARA	21	1
HOIMA	19	3
MBALE	18	3
FORT PORTAL	16	#N/A
IGANGA	14	#N/A
SOROTI	12	#N/A
TORORO	12	#N/A
MITYANA	12	#N/A
GULU	10	#N/A

VAT OFFSETS BY SECTOR

Offset Distribution by Sector as at 31st July 2018



VAT FRAUD MANIFESTATIONS

- ❖ Fictitious Companies were set up to generate tax Invoices to offset VAT payable or generate fraudulent VAT refunds.
- ❖ Genuine Companies tax invoices were sold without their knowledge to other companies to claim input VAT.
- ❖ Large Tax payers/entities sold to third party entities tax Invoices which were previously issued to final customers.
- ❖ Fake Imports and Exports. Companies claimed input VAT on non-existing imports & Exports.

- ❖ Fictitious purchases with no physical movement of goods
- ❖ Overstatement of input tax using tax invoices originating from missing traders
- ❖ Claiming input tax on ghost supplies
- ❖ Claiming input tax on purchases supported by fictitious supplies invoices

- ❖ Registration of multiple business entities by few traders.
- ❖ Use of falsified documentation to register companies.
- ❖ **Tax Payment:** Matching Input and Output VAT hence paying minimal VAT liability. The gross profit margin is maintained at between 0.1% to 1%.

THE SCHEME: KEY PLAYERS



Tax filers: They file tax returns with suppressed profits/Taxes

Nil Filers: Those taxpayers who file tax returns declaring Nil transactions despite other taxpayers indicating purchases from them.

Non-Filers: Those taxpayers who do not file any tax return despite other taxpayers indicating purchases from them.



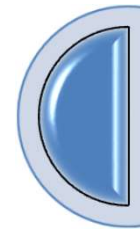
2: Intermediaries

Invoice

Manufacturers: These are registered entities established to produce “fake” invoices. They acquire Electronic Tax Registers (ETR) to print cash receipts

Invoice Marketers &

Distributors: These are individuals who are tasked with the role of looking for customers and deliver invoices with ETRs to facilitate claim of the costs



3: Tax agents

Conducting business with other peoples TINs without their knowledge.

Inflating the purchases amounts on invoices given to them to file.

Including purchases and sales that are non-existent to their clients companies.

An Agent registers multiple companies and then uses one email to manage these Co.s

Swaping input among related Co.s

Identifying Missing Trader Fraud

Invoice Generators

Newly established, recently incorporated

Dormant companies with no financial or trading history

Repeat deals at the same or lower prices and small or consistent profits

Beneficiaries

Entities involved in high turnover service industries such as energy and transport contracts.

Big amount invoices

Vague descriptions of supplies

INVESTIGATIVE TECHNIQUES

- a) **Mass action**, not case by case! **TIN & VAT De-activation**
- b) Identified targets to include fraudsters and beneficiaries
- c) Match costs claimed with corresponding payments
- d) Business documentation trails
- e) Continuously analyse and do surveillance
- f) Targeted search and seizure operations.
- g) Notification and alerts to public. **Publish intended actions.**
- h) Apply punitive, discretionary penalties. Amnesty for those who respond to the call to come forward
- i) Engagement of Large tax payers to cause buy in and identify more fictitious invoice purchases
- j) Communication to selected tax payers to initiate self-correction

FINDINGS FROM THE INVESTIGATION

- **Persons**

Type	Wholesale trade	K'la Stations
Beneficiaries	27%	80%
Generators	52%	90%

- **Amounts Involved**

– Value of “fake” supply = UGX 200,124,830,140

-VAT claimed on “fake” supply = UGX 36,022,469,425

-Total Tax assessed = UGX 44,505,326,391
(principal tax and penalty)

OUTCOMES OF THE INVESTIGATION

- ☐ Improved VAT performance
- ☐ Reduced usage of fictitious invoices
- ☐ Disarmed and immobilised fraud planners and executors
- ☐ Created awareness among company owners/directors
- ☐ Improved VAT performance
- ☐ Prosecution of perpetrators



CHALLENGES

- Documents forgery/falsification
- Failure to match costs to payments
- Inadequate Human resource
- Inability to locate some tax payers due to wrong information give at registration
- Mutation of tax payers
- Collusion among tax payers
- E-commerce where most business transactions are now digital.

CHALLENGES CONT...

- Suppliers lumping up sales as sales to final Consumers
- Failure to verify submitted documents especially if the supplier is non existent
- Inability to follow the money trail especially cash payment transactions

WAY FORWARD

- Engaging both the supplier and purchaser on the verification of supporting documents for fictitious invoices.
- Creating continuous awareness/ sensitisations to tax payers about VAT fraud committed by tax agents
- Need to deactivate dormant companies from the VAT register
- Need to verify sales of companies that lump up sales
- Punitive measures on the culprits to create a bigger impact in society

Thank
You