

Carousel Fraud

And its Modus Operandi...



Carousel Fraud

- **Abuses the VAT system**
 - Exemption and refund mechanism
- **Takes advantage of multiple countries**
- **Requires more resources...**
 - ...to commit
 - ...to investigate
- **Impact on trade statistics**
 - Export data unreliable on certain goods
 - Balance of trade
- **Potential for massive damages**

Positions in a carousel 1/3

- **Missing Trader (MT):**
 - Used to create the appearance of real transactions
 - Does not fulfill any tax obligations
 - No response to inquiries
 - Can't be found physically
 - No clear commercial activity
 - Shadow persons
 - Provides deductible VAT to other companies
 - Easy to replace

Positions in a carousel 2/3

- **Defaulter:**
 - Declares but does not pay the VAT
 - Fulfills some of the tax obligations
 - Can be harder to prove criminal intent
- **Broker:**
 - Highest profit margin in the chain
 - Is in the same country as the MT
 - Makes purchases from a Buffer
 - Makes zero rated sales (exports etc.)
 - Claims VAT refunds
 - VAT not paid by MT or Defaulter

Positions in a carousel 3/3

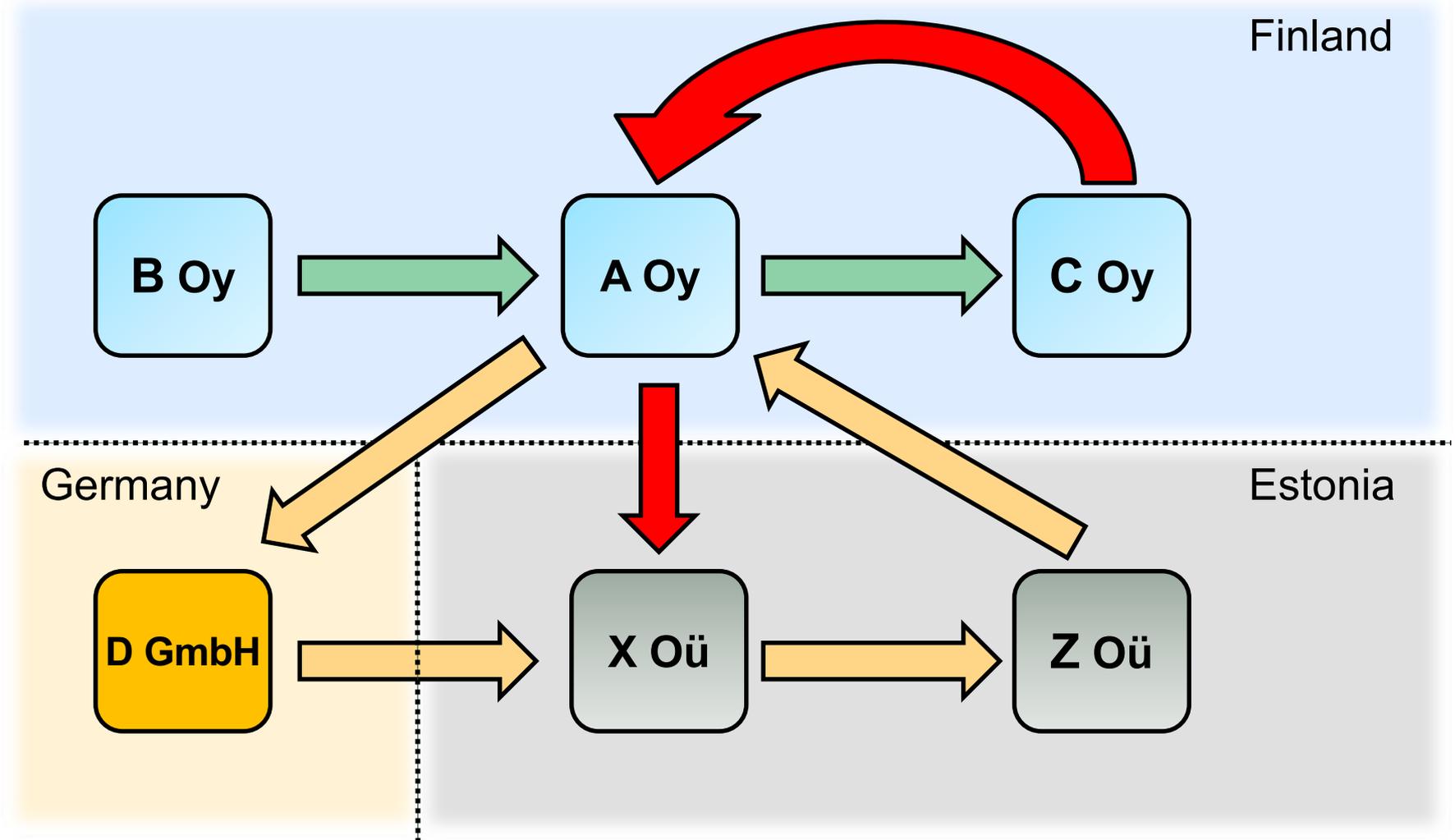
- **Buffer:**
 - Make investigations more difficult
 - Acts as a normal trader on a domestic market
 - Usually after a MT in the supply chain
 - Creates distance between MT and Broker
 - Fulfills the tax obligations
 - Very low profit margin
 - Easy to replace
- **In/Out Buffer - Conduit**
 - Same characteristics as Buffer
 - Acts as a normal international trader

Problems with definitions

- **Definitions**
 - Can vary from country to country
 - Carousel includes multiple countries
 - Useful in a professional setting
 - Visual explanation of the carousel form
 - Role of each country in the fraud
- **Exchanges of information**
 - Should not replace written explanation
 - Can cause confusion
 - The need to agree to definitions?
 - Do we need to clarify?
 - Usability in a criminal trial?



Company A Oy role?



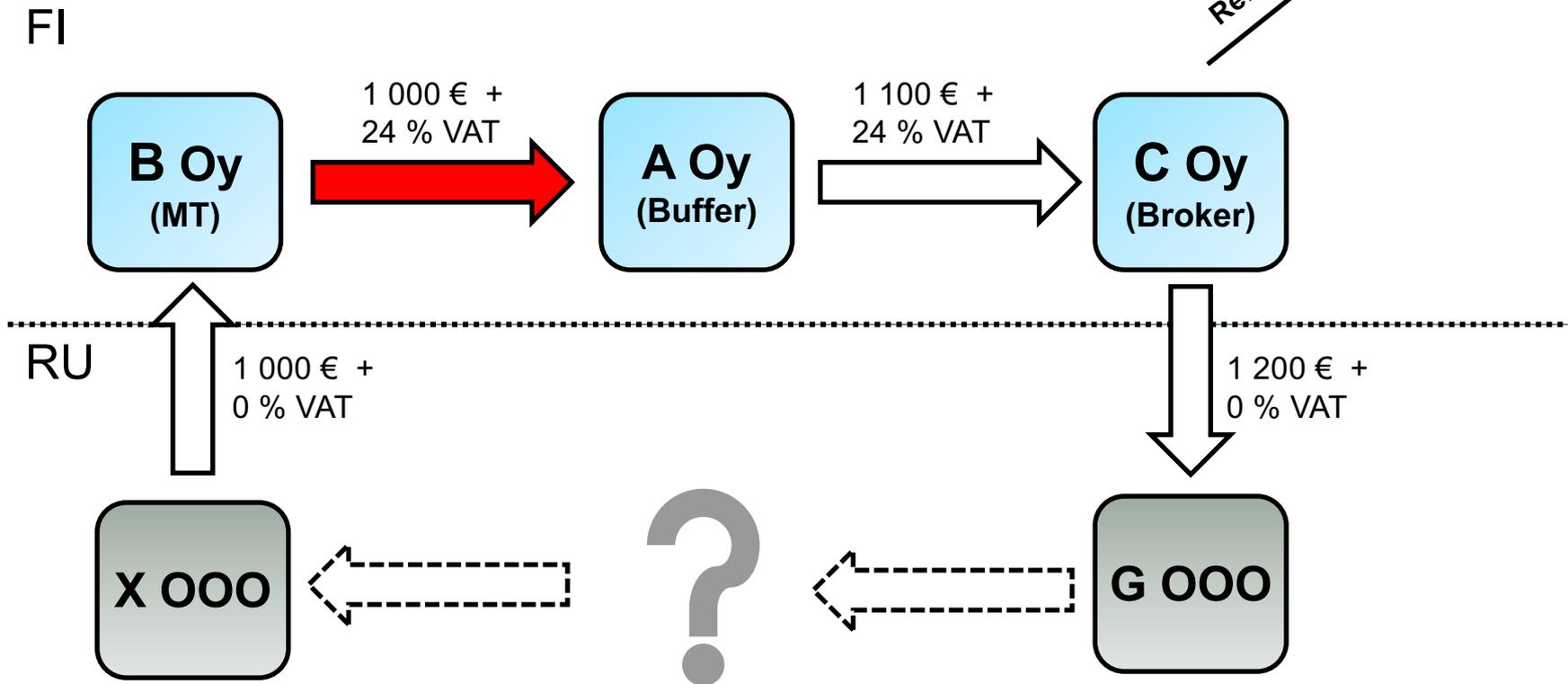
Why a carousel?

What is the problem with this fraudulent chain?

Tax office



Refund claims

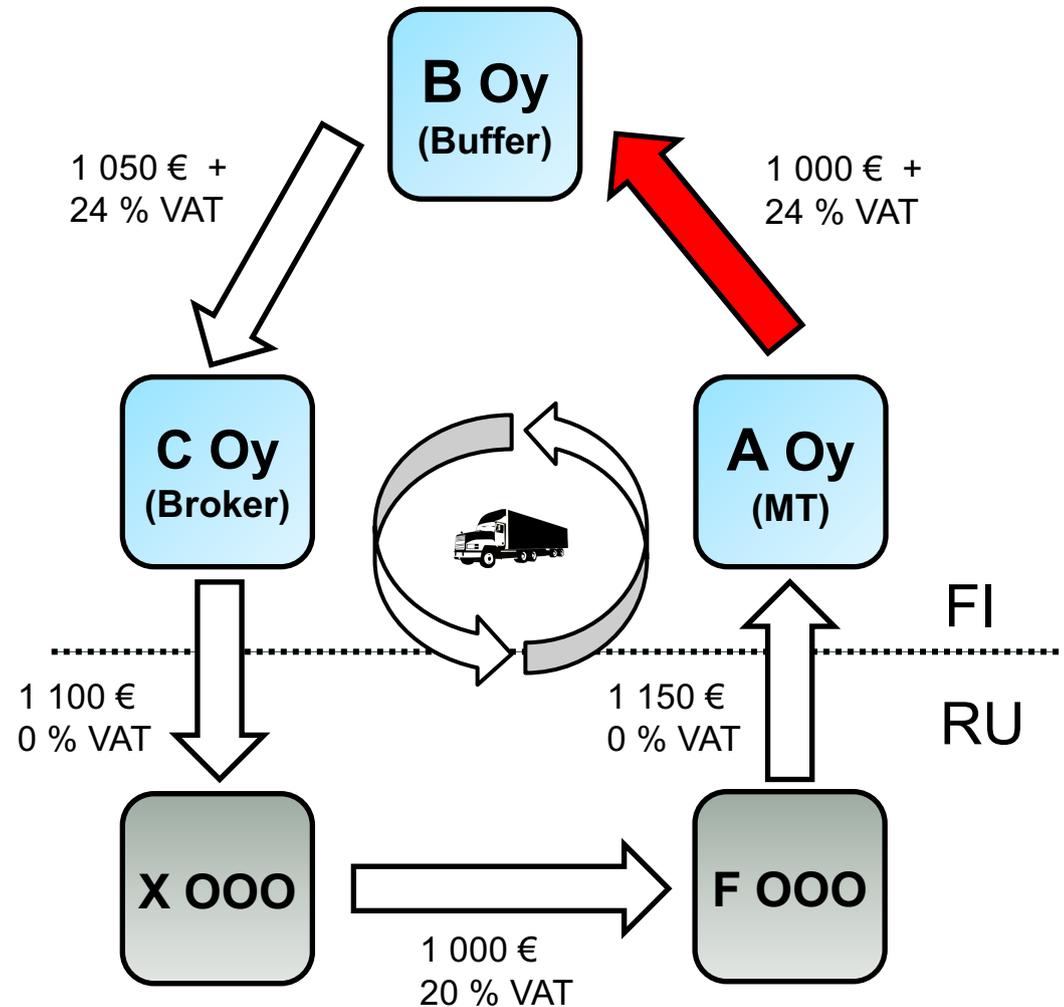


Variations

Variation 1

Modus operandi

1. A Oy domestic sale to B Oy
 2. B Oy domestic sale to C Oy
 3. C Oy export to X 000
 4. X 000 domestic sale to F 000
 5. F 000 export to A Oy
- Could X 000 also be a missing trader?
 - There can be multiple reasons why we would not want to commit a fraud in Russia

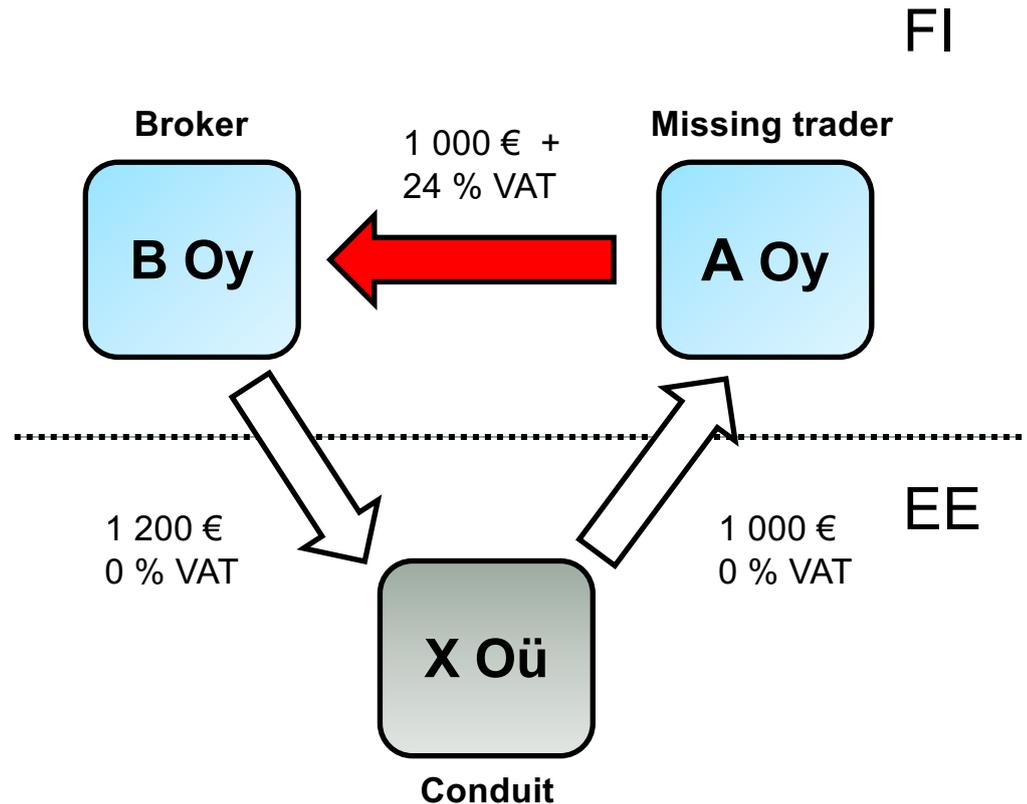


Variation 2

Due to the principle of free movement of goods in the EU, carousels can more easily deal with fictitious goods/services

Modus operandi

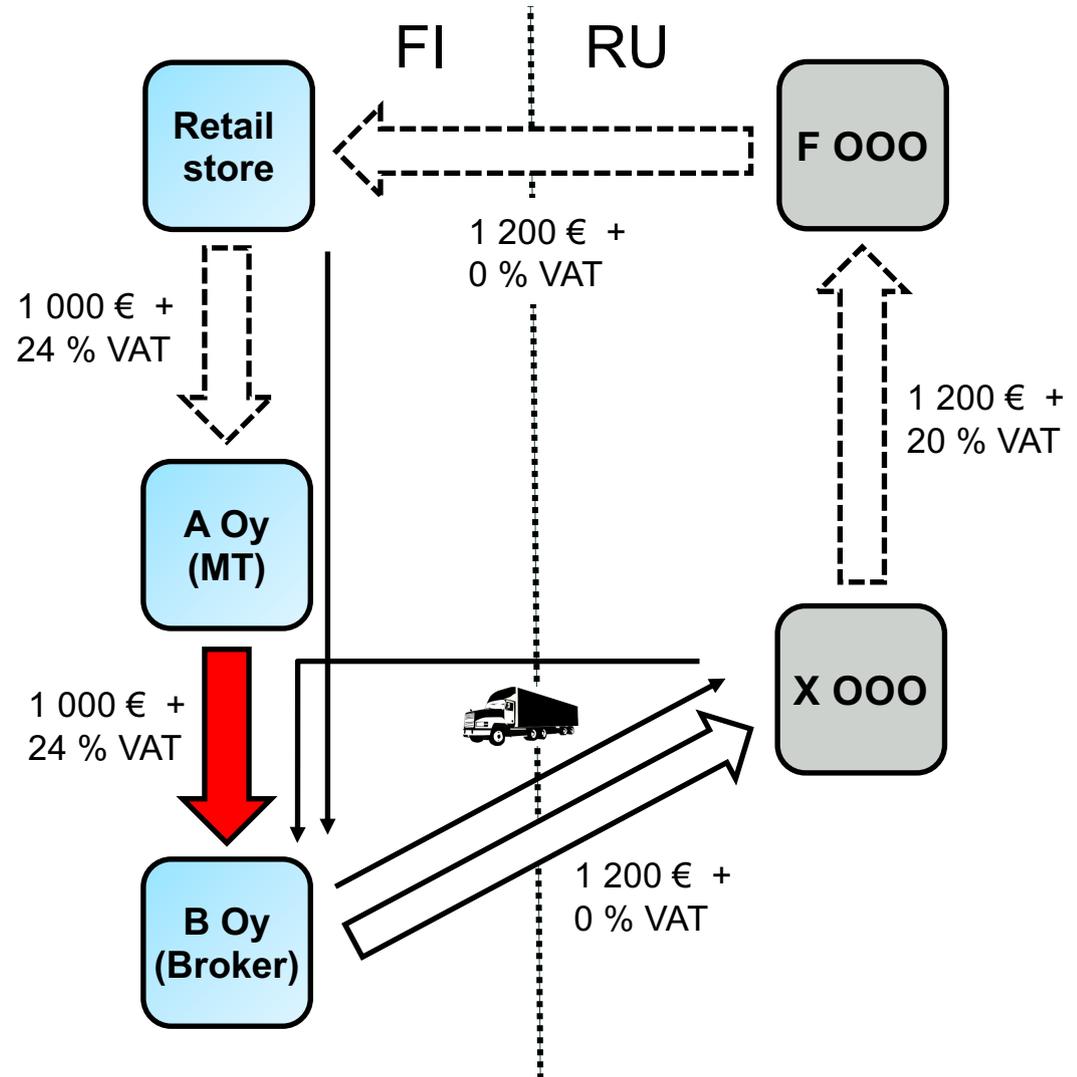
1. A Oy fictitious sale to B Oy
 2. B Oy:n fictitious "export" to X Oü
 3. X Oü sells the goods back to A Oy
- Some countries outside of EU have relaxed customs procedure for certain goods, countries and/or specialty areas
 - These exceptions can be used by the fraudsters



Variation 3

Modus operandi

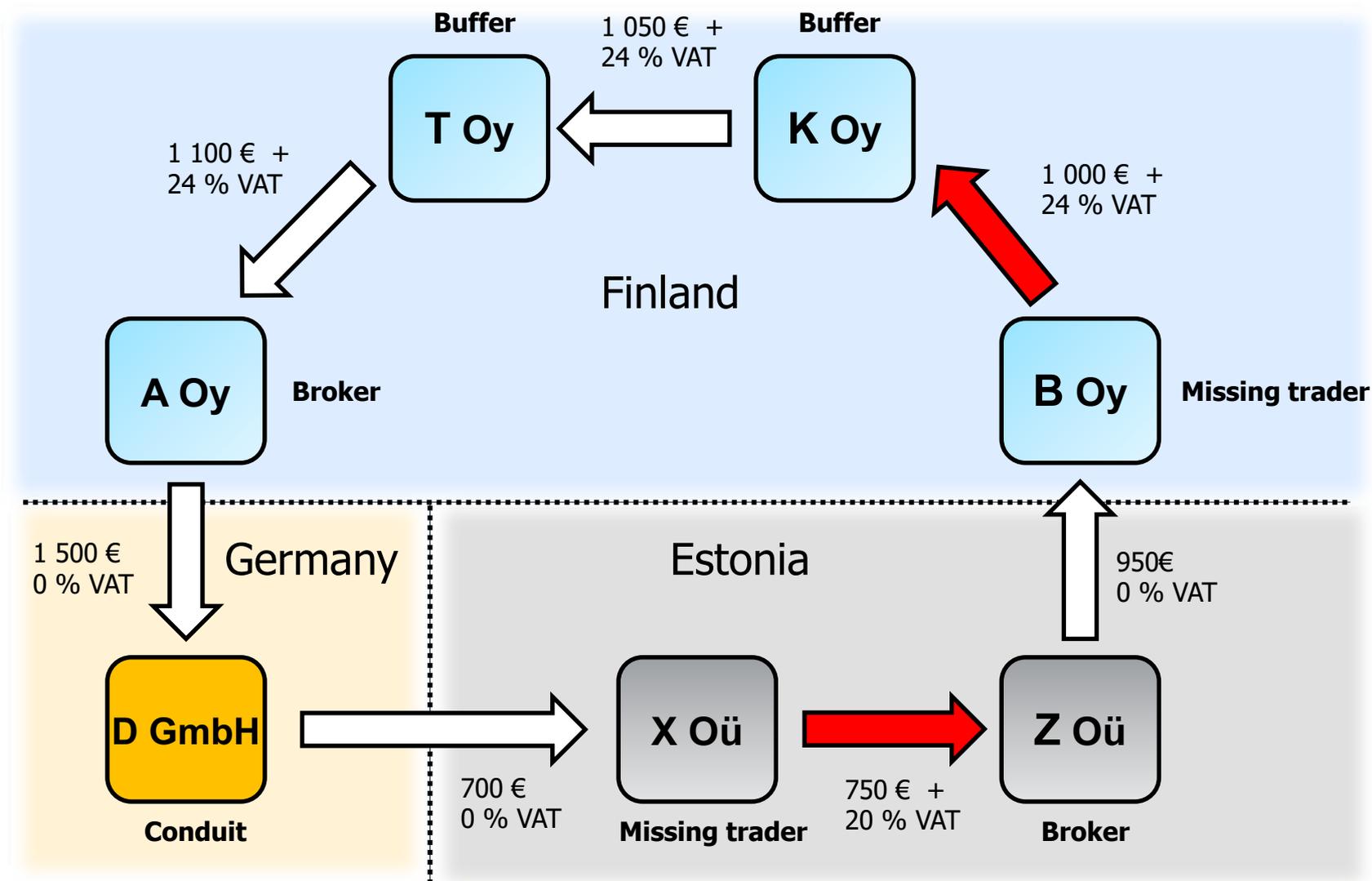
1. Real goods purchased by A Oy
 2. A Oy domestic sale to B Oy
 3. B Oy export to X 000
 4. X 000 fictitious domestic sale to F 000
 5. F 000 fictitious sale to the retail store
- Exit to Russia from one customs checkpoint → entry to Finland through another checkpoint
 - The carousel can have one real purchase of goods that circle around with forged paperwork
 - Retail store not participating in the fraud. Does not know about F 000.
 - On paper: Retail store → A Oy → B Oy → X 000 → F 000 → Retail store



Example

Damages/profit

Example



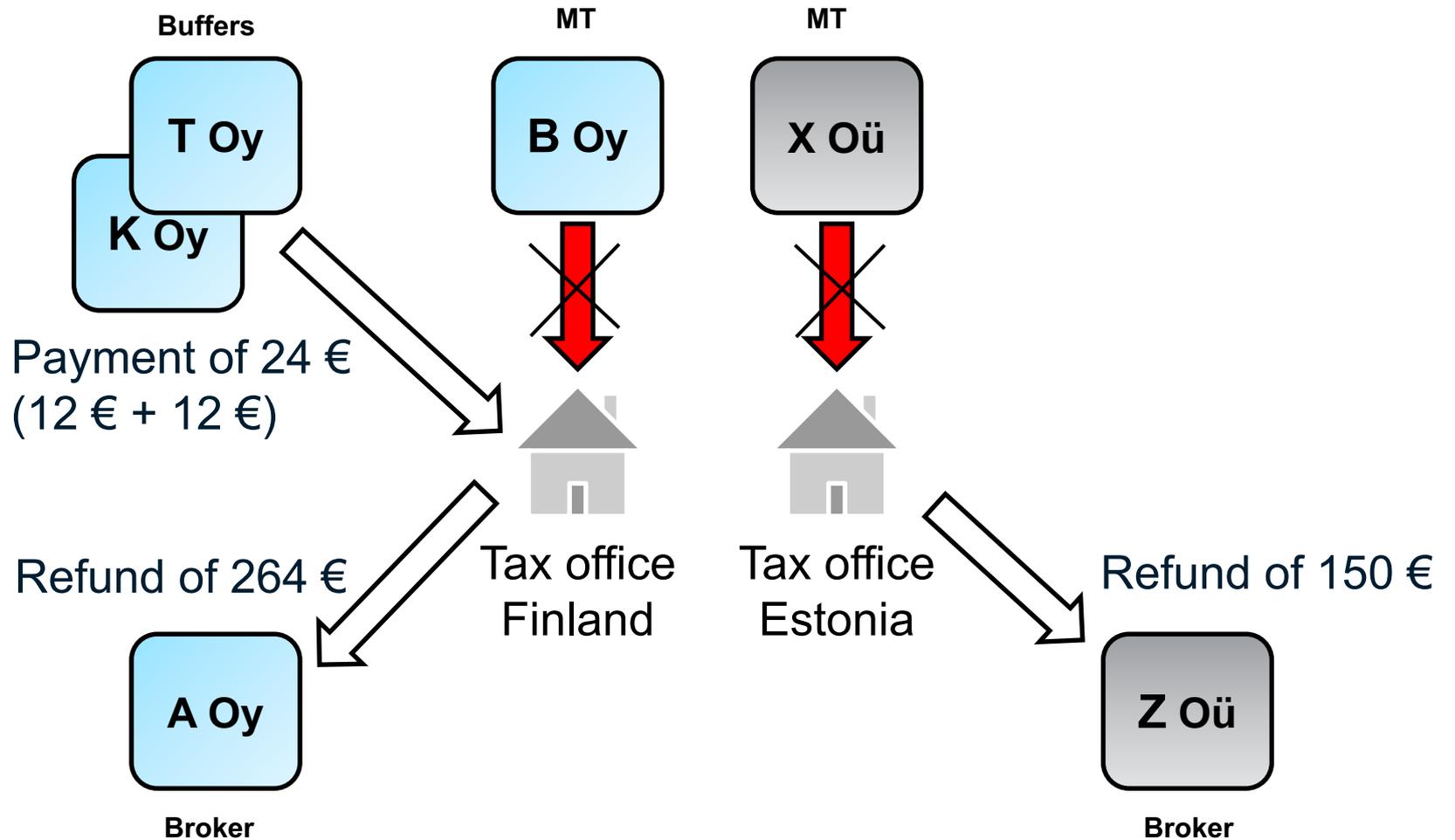
Refunds

- Carousel generates 414 € of refunds
- Refunds can be invested back to the carousel



- Only two countries in this example!

Payments



Profit of the fraud

- **Profits in total 390 € (240 €+ 150 €)**
 - From Finland the profits are 240 € (264 € refunds – 24 € VAT paid by the buffers)
 - From Estonia the profits are 150 €
- **Breakdown**
 - Three countries used in the carousel
 - Refunds claimed in two countries
 - Adding a broker to Germany would increase the profits!
- **Costs are quickly covered by the profits**
 - Companies,
 - Shadow persons
 - Logistics
- **Maintaining the carousel requires recourses**

BREAK OUT

Group exercise

Results

- **Present and explain your carousel!**
- What goods or services did you choose?
- How did you organize the flow of money, circulation of goods/services and invoices? (Group A)
- How did you communicate with the other fraudsters and tax officials/investigators? (Group B)
- What countries did you involve in your carousel, and in which country would you situate your Broker(s)? (Group C)
- How did you hide the assets? (Group D)
- What else did you consider?

How to diquise a carousel

- Part of the goods/services can be real
- Several different Buffers are used
 - Buffers can act in "good faith"
 - Easily replaceable
- Multiple countries to hide the form of a carousel
- Several different Carousel schemes are interlocked
- Changing of roles in a carousel
 - Buffer becomes a broker
 - Carousel changes overall form or direction

Typical goods and services

- Works with the majority of goods and services
 - Depends on the country (reverse charge?)
- Cheap and easy to transport
- High valued goods or services
 - Electronic goods (mobile phones, computers, spare parts...)
 - Cars, boats, planes
 - High valued metal (platinum, gold, silver, copper...)
 - Rights (licences, carbon credits...)
 - Services (building sector, cleaning sector)

Adding complexity - Form

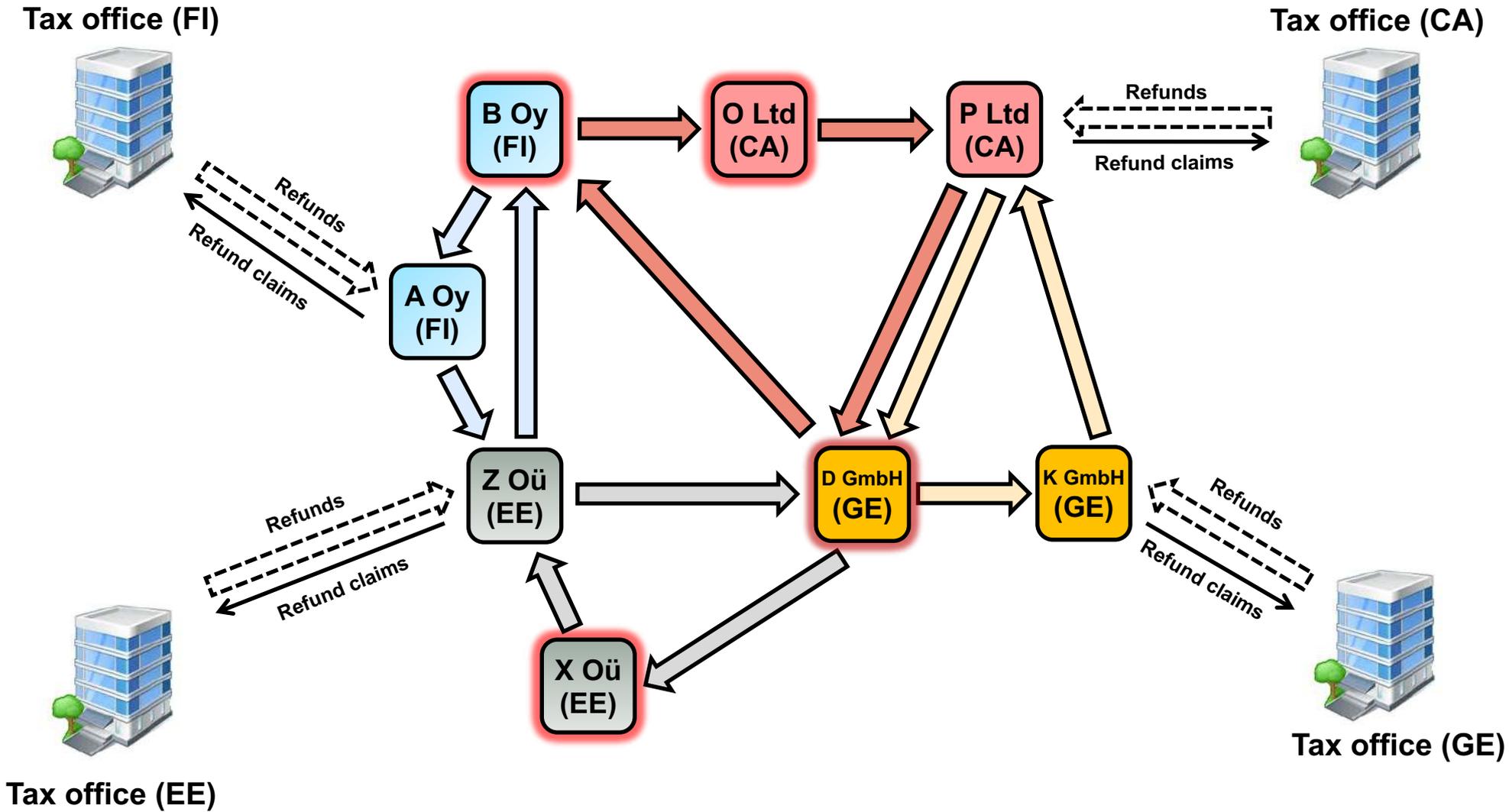
Complexity - Form

- **Carousel can have a complex form**
 - How complex does it have to be?
- **Benefits**
 - Multiple countries and companies = more opportunities for fraud
 - Companies easier to replace
 - Bank account statements not as one dimensional
 - Multiple different transactions
 - Creates appearance of real business
 - Complexity can hide the form of a carousel
 - Dividing profits of the fraud
 - Removing responsibility
 - How could i have known?
 - How could i have operated this scheme?

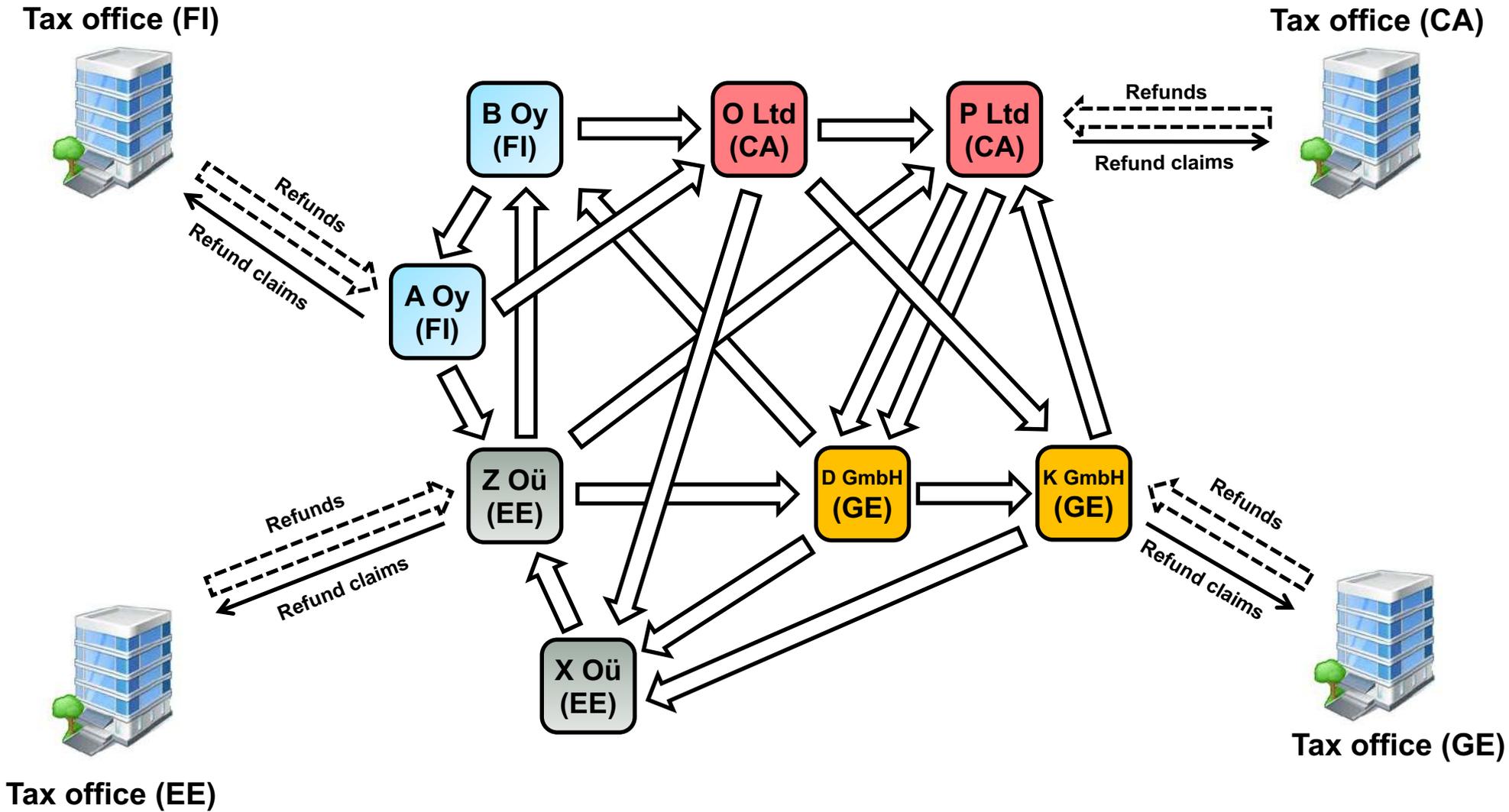
Complexity - Form

- **Benefits**
 - Creates distance to the fraud
 - Structure supports the claims of the fraudster
 - Communication/Letters
 - Documents
 - Explanations
 - Investigations take resources
 - Investigations take time
 - Lack of cooperation between countries?
 - Who is behind the carousel fraud?
 - Multiple companies and persons to investigate (disadvantage?)
 - Can be hard to unravel a carousel

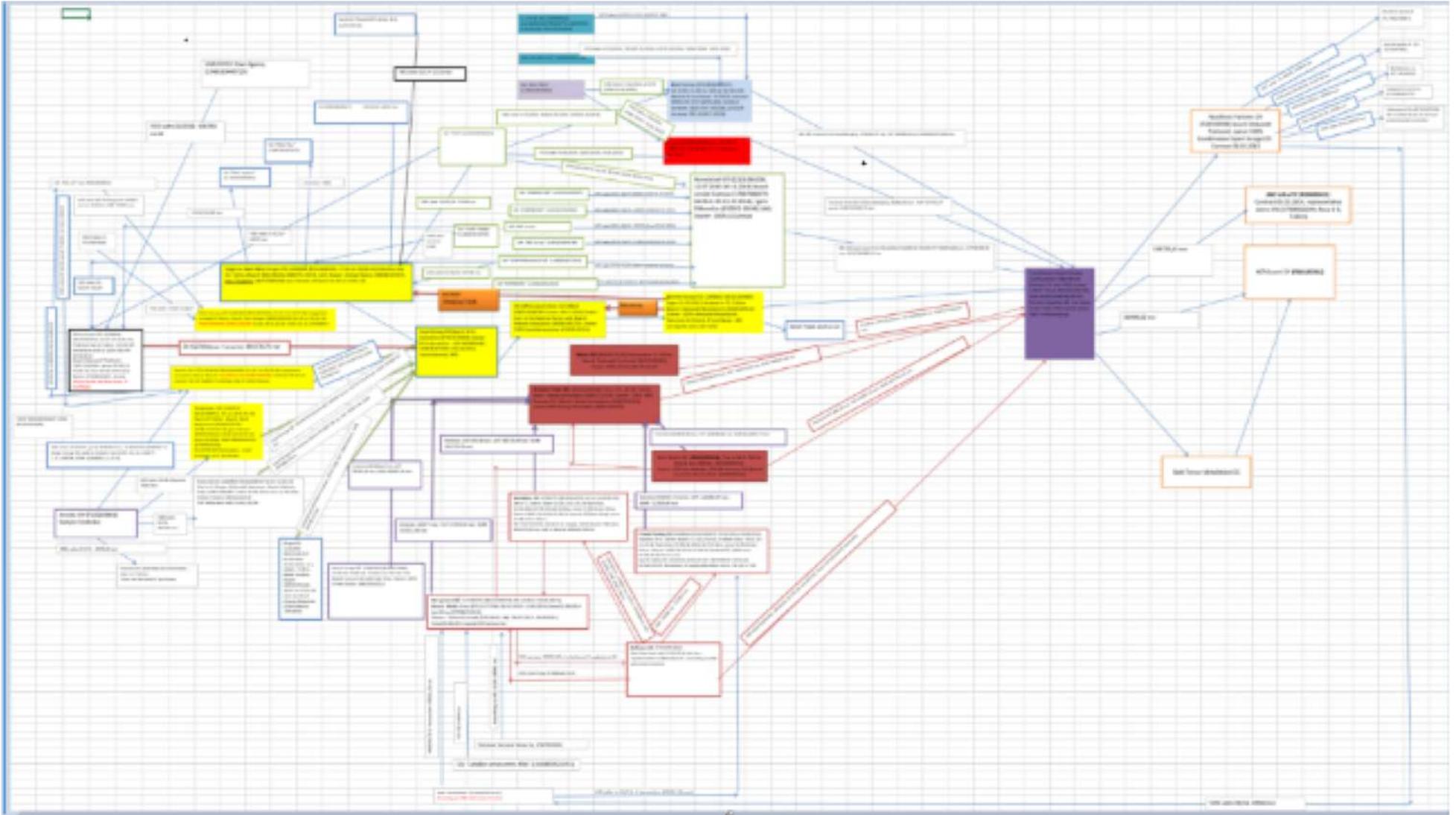
Carousels interlocked



What is happening?



Complexity

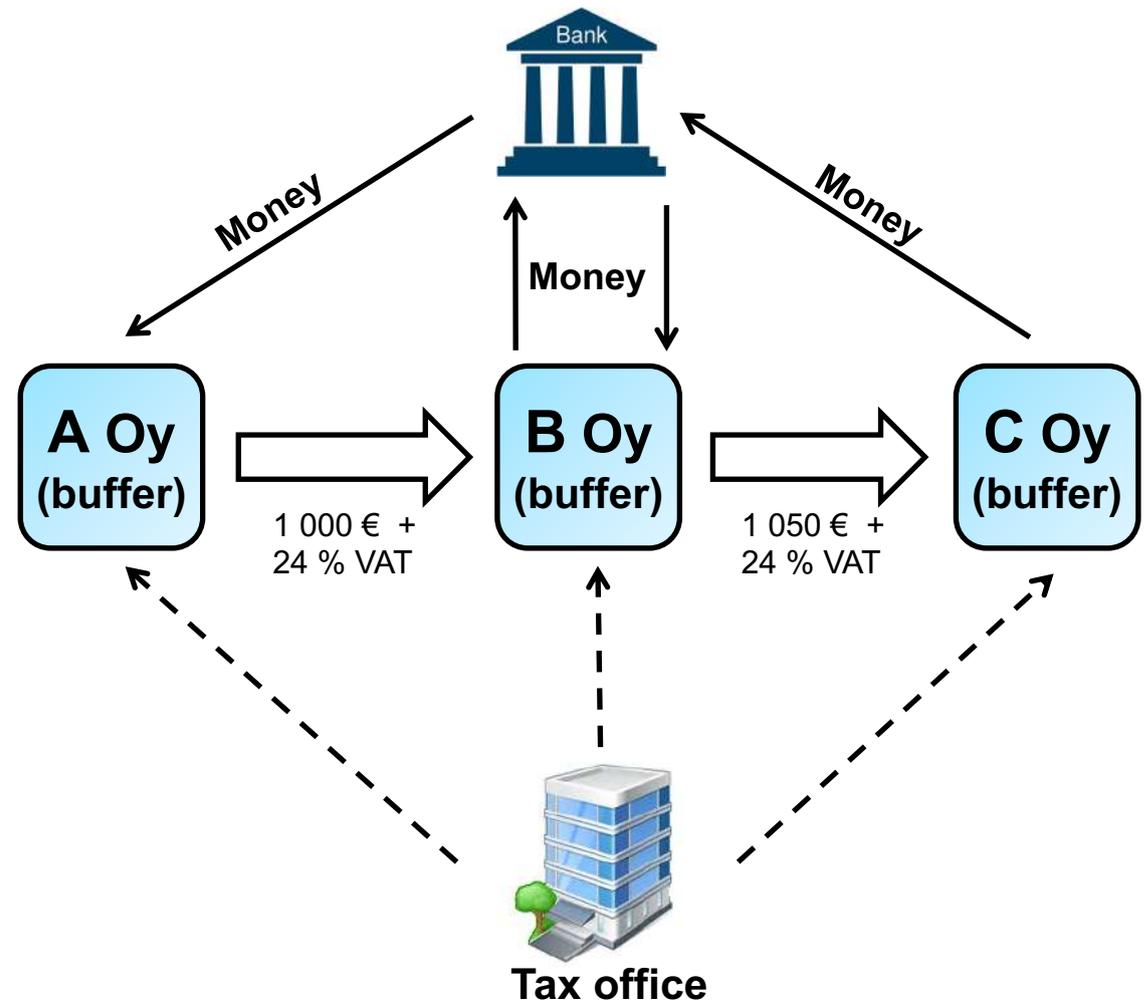




Adding complexity - Money flow

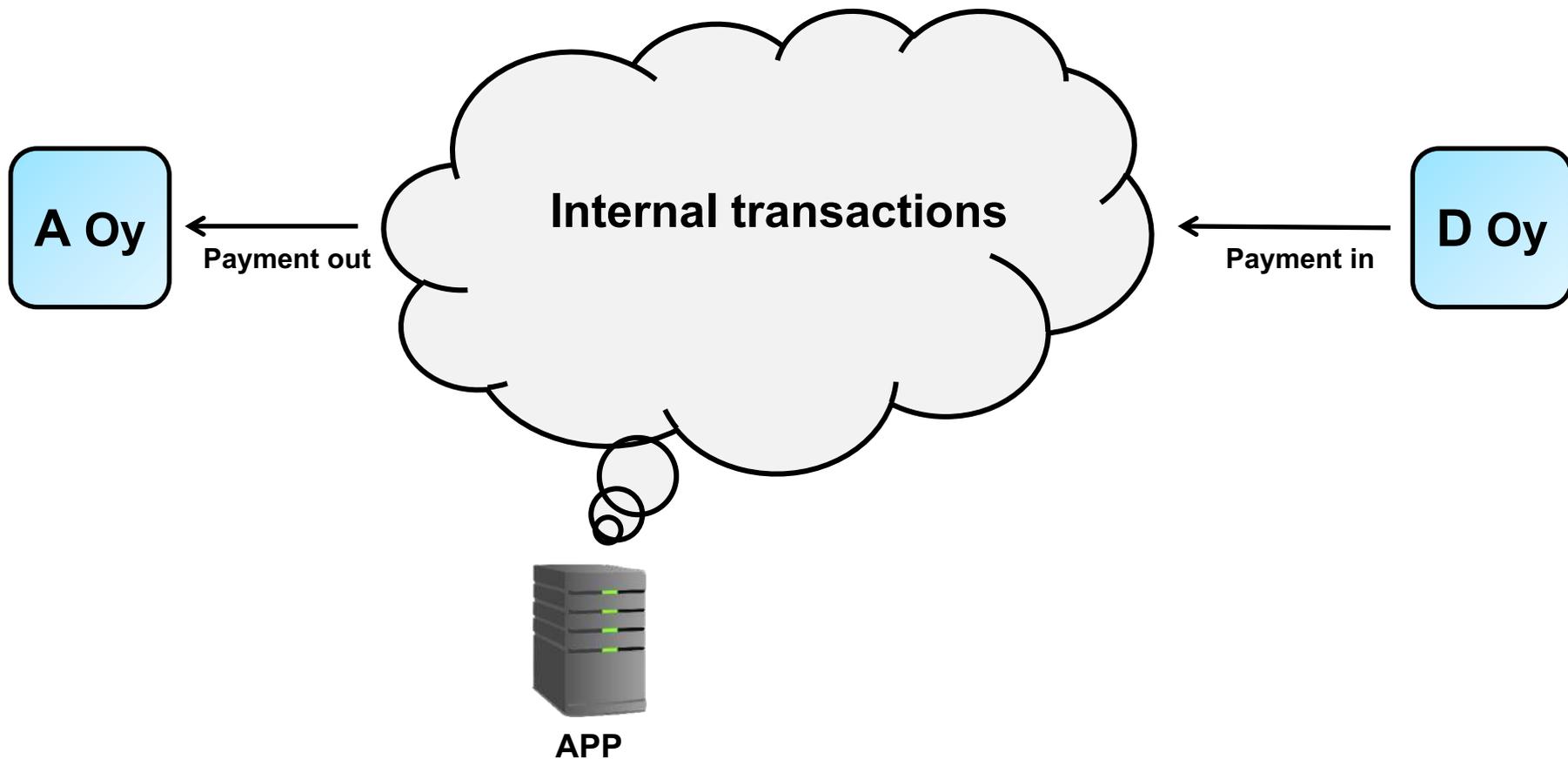
Complexity - Third party payments

- How to use escrow services for the benefit of the fraud. In this example there is a chain of buffers in a carousel fraud
- Money is not going directly from the buyer to the seller
- Third party services are used to make unraveling a carousel harder (Escrow, bitcoin etc)
- Detecting one suspicious company does not automatically reveal other companies if we follow the money
- Escrow vs bitcoin?



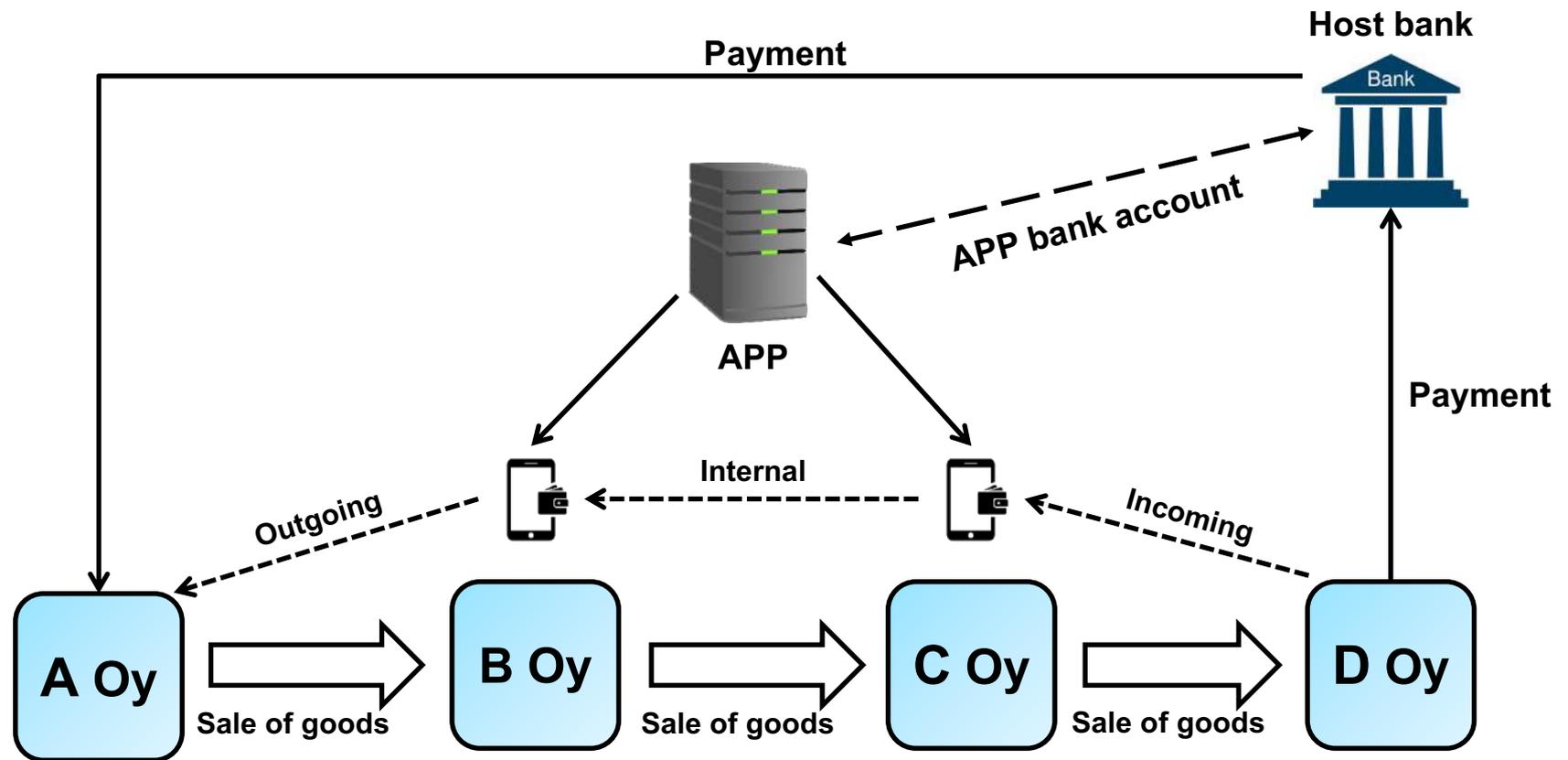
Complexity - APP

- **Alternative payment platform (APP)**
 - Key feature = Internal transactions

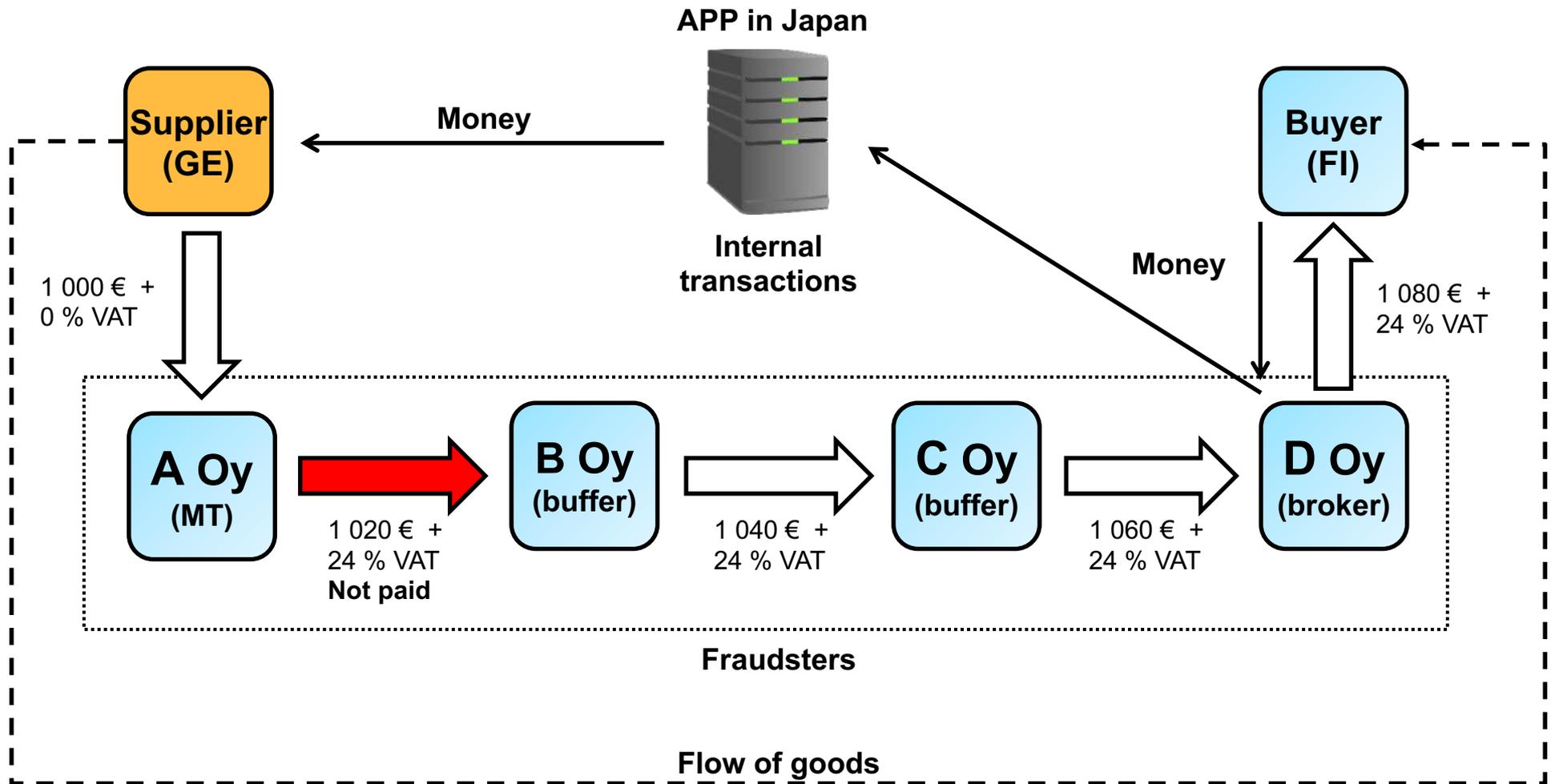


Complexity - APP

- **APP = Alternative payment platform**
 - Key feature = Payments within the system



Example of APP



Complexity - APP

- **Benefits**
 - Money is out of the shadow persons control
 - What type of shadow person we have?
 - Can the risk be minimized?
 - Can print "bank account statements"
 - Money not in the same jurisdiction as the fraud
 - Internal transactions hard to identify
 - Can be altered by admin of the APP
 - Not necessarily under same legislation as banks
 - Money laundering reports?
 - Overall compliance requirements?
 - APP can be moved to another jurisdiction
 - Evade legislation requirements

Adding complexity - Communication

Complexity - Communication

- **Burner apps**



Hushed



CoverMe



Burner



TextMe Up

- **How does it work?**

- Needs data connection. Does not work on traditional mobile network (phone line)
- Creates a second number
 - Can be disposed at any time
 - Useful when phone does not support two SIM cards
- Pick a number out of a "pool" to create MSISDN

Complexity - Communication

- **Benefits**

- High level of anonymity
- Relies on data connection (surveillance)
- No need for a "classic" burner phone
- Can be linked to apps like WhatsApp
- Registration easy with false credentials



- **Key features of some burner apps**

- Masking/hiding the application
- Discreet login screen
- Disguise messages/notifications
- Personal encrypted data with fake password
- Self-destructing messages

Adding complexity - Misleading and counter- surveillance

Complexity - Misleading & CS

- **Benefits of operating a website**
 - Brings more credibility to the company
 - With proper software you can see the IP:s of visitors
 - Can set up alarms for government IP:s
 - Why would a government agency be looking at the website?
- **Misleading**
 - Leaving credit cards to other fraudsters to create an appearance of being in a specific country
 - Can also be done with phones
 - Easier to do in a organised crime group



General problems when investigating carousels

Problems with investigation

- **Domestic vs international means**
- **Length of investigation**
 - Adequate resources
 - Acceptable level damages?
- **Coordination**
 - What, when and where?
 - Risk of exposure
 - Miscommunication
 - What is requested vs what we can provide



Problems with investigation

- **Different priorities**
 - Focus of the investigation
 - Acceptable outcome
- **Internal and external pressure**
 - Compliance vs Cooperation
 - Quantity vs Quality
 - Obligation vs Commitment
 - Resources vs Requirements

Problems with investigation

- **Asset recovery**
 - Multiple countries and jurisdictions
 - Identification of assets
 - Linking assets to the crime
 - Stage of asset recovery?
 - Pre-investigation, prosecution etc
 - Preserving and managing assets
 - Time limits

Presenting complex issues

- **VAT is complex even to professionals**
 - Margin tax scheme
 - Place of taxation
 - and many more...
- **Case presentation**
 - Law enforcement
 - Prosecution
 - Judges
 - Keep it simple...



Thoughts...

- **Personal relationships**
 - The value of networking
 - Level of communication
- **Follow the money**
 - Links to people
 - Use of goods and services
 - Suspects, witnesses and/or victims
- **Cooperation**
 - Not a one way street



**Based on what we have now
discussed, would you make
changes to your carousel fraud?**

Questions?