

Cash economy investigation techniques

Trade bulk cement and hidden turnover concrete

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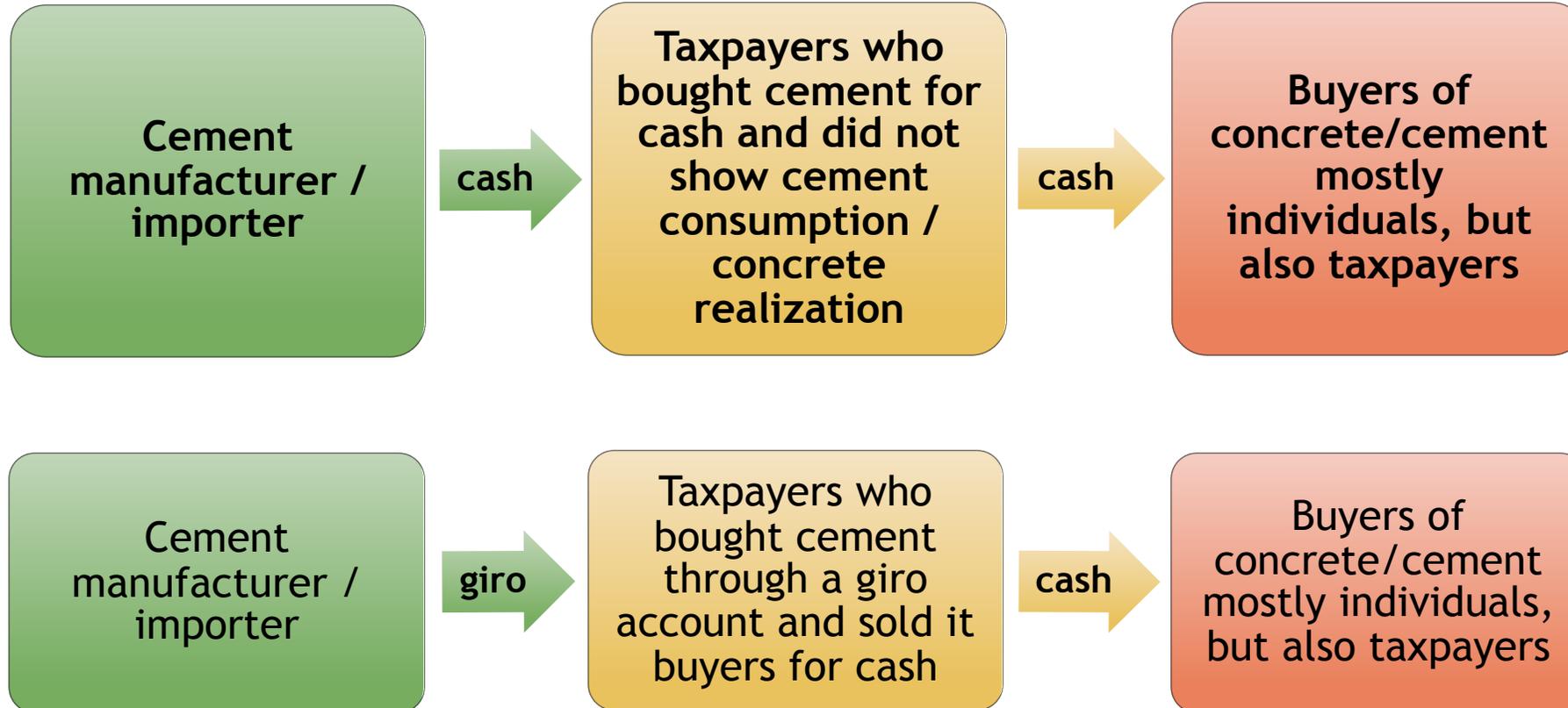
Case of discovering big tax evasion in construction sector in 2020

- ▶ In 2020, the Indirect Taxation Authority of Bosnia and Herzegovina carried out a major action aimed at combating tax evasion (VAT) in Bosnia and Herzegovina, which included more than 100 related audits of taxpayers and resulted in the determination of significant amounts of additional VAT;
- ▶ The result of the action is the discovery of a significant amount of bulk cement that is pro forma discharged in retail, all with the aim of producing and putting concrete on the black market;
- ▶ The big action started with the control of producers and importers, as well as distributors of cement, with special reference to the turnover of cement in bulk;
- ▶ Finally, it was completed by determining the exact amount of actual turnover and actual customers by applying the operational plan of control activities in all controls, which meant uniformity in treatment;



Brief facts of the case

2 main types of trading



TAX INVESTIGATION AND AUDITION IN CASH ECONOMY

Controls found that controlled taxpayers:

- ▶ did not respect the norm of cement consumption in concrete production;
- ▶ they showed a deficit of cement on which they paid output VAT, which was not actually a deficit of cement, it was an unrepresented realization concrete which they charged from customers in cash;
- ▶ cement was traded through retail for cash and for an “unknown” buyer who is actually a known buyer (mostly individuals) but also taxpayers who wanted to hide their own concrete realizations;
- ▶ exact customers are located in cooperation with the police by checking the license plates of vehicles that drove cement / concrete, as well as through GPS devices that were in the vehicles;

APPLICATION OF INDIRECT METHODS IN DETERMINING VAT LIABILITIES

Indirect methods of determining VAT liability included all these parameters:

- ▶ comparison of the expressed values with the norms of consumption of cement, water and stone in the production of one cubic meter concrete;
- ▶ linking the reported electricity consumption with the possible amount of concrete produced with the average electricity consumption;
- ▶ connecting the amount of water consumed with the possible amount of concrete produced using the average amount of water;
- ▶ linking fuel consumption costs and mileage with the possible amount of concrete produced with average fuel consumption;

Example of calculation of additional VAT liability

No	Type of concrete	MB 20	MB 25	MB 30	MB 30 pumped	MB 35	MB 40	Stone fraction 0-4	Stone fraction 0-8	Total in convertible marks (KM)
1	Cement standard by types of concrete in kg	260,00	300,00	330,00	350,00	350,00	350,00	390,00	370,00	
2	Total amount of concrete produced for the period 01.07.2017-30.09.2020.	3.300,00	980,00	17.578,50	40.289,00	0,00	4.732,00	109,50	609,50	67.598,50
3	Percentage of share in total concrete production	0,05	0,01	0,26	0,60	0,00	0,07	0,00	0,01	1,00
4	Purchased cement through retail - division by types of concrete in tons	216,39	64,26	1.152,67	2.641,86	0,00	310,29	7,18	39,97	4.432,62
5	Acquired cement through retail - division by types of concrete in kg	216.390,10	64.261,30	1.152.670,71	2.641.860,80	0,00	310.290,29	7.180,22	39.966,60	4.432.620,00
6	Cement converted into one cubic meter of concrete	832,27	214,20	3.492,94	7.548,17	0,00	886,54	18,41	108,02	13.100,56
7	Prices of concrete per one cubic meter per price list without VAT	82,00	86,00	90,00	90,00	94,00	100,00	100,00	95,00	
8	Value excluding VAT	68.246,11	18.421,57	314.364,74	679.335,63	0,00	88.654,37	1.841,08	10.261,69	1.181.125,19
9	Calculated VAT for the controlled period 01.07.2017.-30.09.2020.	11.601,84	3.131,67	53.442,01	115.487,06	0,00	15.071,24	312,98	1.744,49	200.791,28

Case results/findings

- ▶ A large amount of non-reported turnover of cement/concrete and VAT which trade it for cash (we have not final report about exact additional value VAT);
- ▶ Book cookings, double-entry bookkeeping (separate material bookkeeping)
- ▶ Directors and owners of companies that traded concrete had their informal records of the actual turnover of concrete as well as names of customers;
- ▶ Directors and owners of companies that traded concrete in their statements they did not dispute that there was a concrete trade for cash, but generally did not told us precisely who their customers were;
- ▶ Many taxpayers who worked and traded in concrete hid their turnover, and made unfair competition to those taxpayers who operated legally and complied with all legal regulation;

Legal basis in the law on VAT and the provisions of the rulebook on the application of the law on VAT

- ▶ Article 3, paragraph 1, item 1 of the Law on VAT prescribes: VAT is, in accordance with the provisions of this law, paid on the supply of goods and services performed by the taxpayer on the territory of Bosnia and Herzegovina for a fee;
- ▶ Articles 4, paragraph 1 of the Law on VAT prescribe that the sale of goods, in the sense of this law, is the transfer of the right to dispose of things (hereinafter: goods) to a person who can dispose of those goods as the owner;
- ▶ The provisions of Article 38, paragraph 2 of the Law on VAT stipulate that the taxpayer is obliged to calculate VAT for the appropriate tax period on the basis of the total turnover of goods or services listed in the invoices in that tax period. Also, Article 39, paragraph 1 of the Law defines that taxpayers are obliged to calculate their VAT notification for a certain tax period in the monthly VAT return;

THANK YOU ALL ON ATTENTION

- ▶ *I would especially like to give special thankful to the OECD and TAX Academy for the opportunity to participate for the second time in this way of training and exchanging experiences with colleagues around the world as well as for the excellent organization. Thank you. Greetings.*