



# OECD International Academy for Tax Crime Investigation

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VAT



# VAT Fraud – German Experience

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## Main Fraud Schemes

- a. Black Market
- b. Carousel Fraud
- c. Non-Declaration of VAT/Turnover
- d. Refund Fraud / Identity Fraud



# VAT Fraud – German Experience

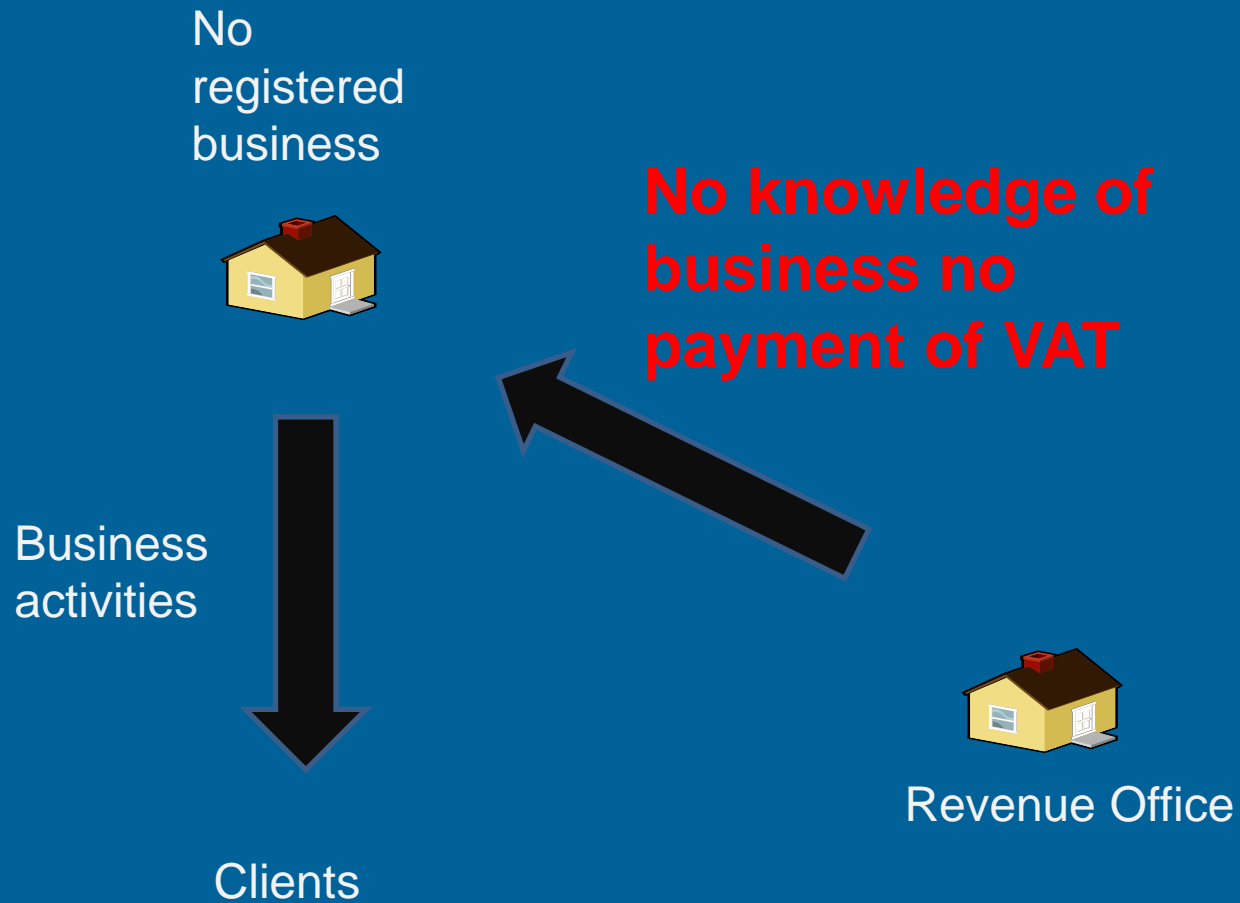
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## a. Black Market

- The scheme
- The fraudulent effect
- Initiators
- Detection
- Professional enablers



# The Scheme





# The Scheme

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- goods / services sold nondeclaration
- no company-registration
- no paperwork / no bookkeeping
- quick changing locations
- often goods of carousel fraud / other tax fraud CP 4200
- organized structures
- cash-based business



# The Fraudulent Effect

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- huge money - tax damage
- clients/consumers problems
- social care problems
- competition disadvantages
- faked goods / brands etc.
- influence on economy itself



# Initiators

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- OCG (organized crime groups)
- Individuals
- Business owners – side business



# Detection

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- generally difficult
- luck
- observation of markets
- business checks – regularly
- Whistleblowers
- Customs information – co-operation
- Police information
- consumer claims



# Professional enablers

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- Installing of structures
- Tax law knowledge
- Payment methods
- Advicer status in case of detection
- Sometimes initiate false declarations



# VAT Fraud – German Experience

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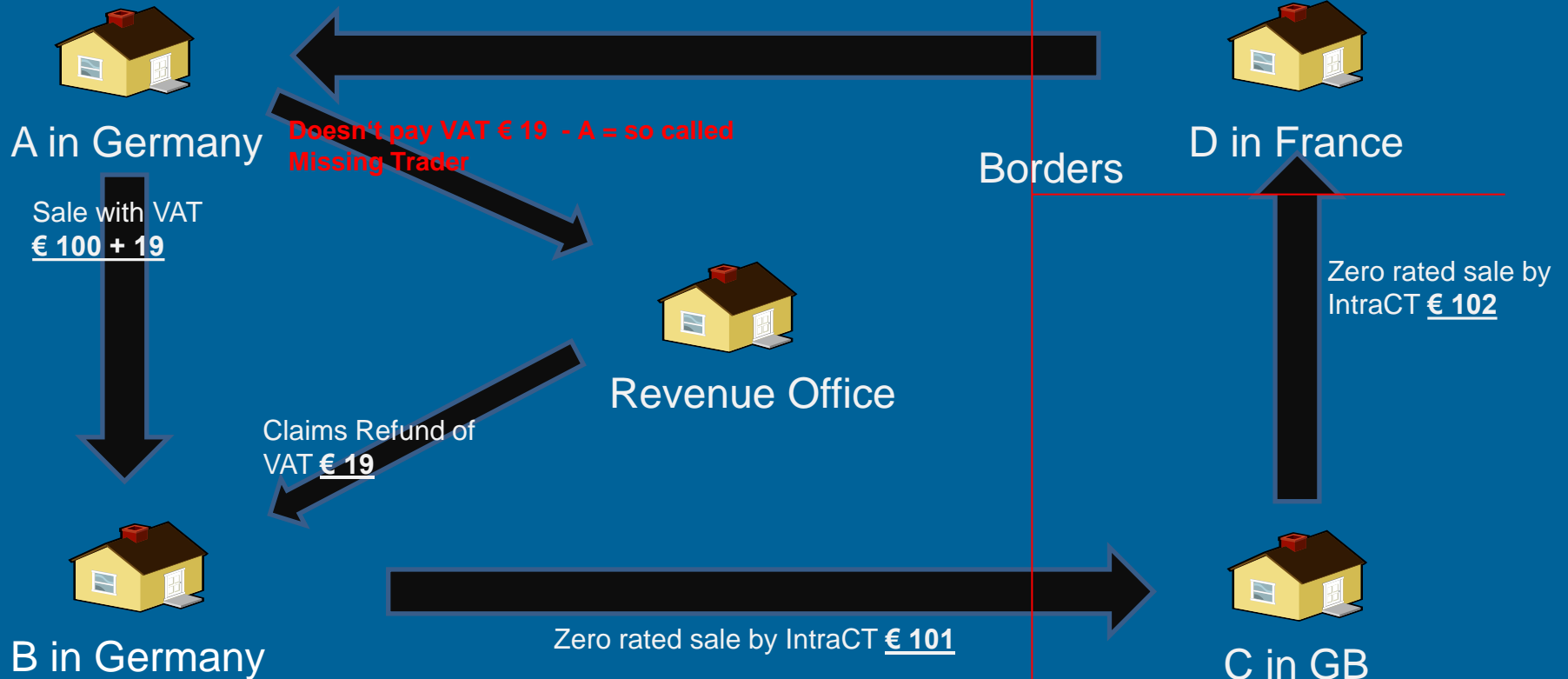
## b. Carousel Fraud

- The scheme
- The fraudulent effect
- Missing trader
- Buffer / other involved companies
- Distributors
- Initiators
- Detection
- Professional enablers



# The Scheme

Zero rated sale by IntraCT € 103





# The Fraudulent Effect

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- non declaration of turnover
- declaration of turnover –no payment–  
problem? Offence?  
invoiced VAT deducted in chain - payed out
- competition advantages –non payed VAT part  
of the price-range (margin)



# Missing Trader

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- **Missing trader often shell company**
- **Registered company (VAT/chamber of commerce/etc.)**
- **Inactive company - no economical activity**
- **Managers are hired - not skilled / alcoholics / etc. only for registration....**
- **Missing trader doesn't file tax declarations**
- **After detection – the Missing trader is vanishing –exchanged fast**
- **paperwork shows - not a real business**



# Buffer

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- **Buffer companies installed to conceal scheme**
- **More Buffers – more difficult to investigate**
- **Sometimes Buffers willingly/knowingly part**
- **Sometimes not aware about participation**
- **Buffers - small amount of money**
- **No reason for Buffers – Necessity?**
- **Paperwork is excellent!!**



# Distributors

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- **Distributor the last (national) company in chain**
- **Organizes export/freight forwarder/etc.**
- **VAT deduction without taxable turnover (because of export)**
- **Paperwork excellent**



# Initiators

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- **Organized schemes – OCG involved**
- **Often fraudsters involved in other crimes / terrorism / fraud / tax crimes etc.**
- **Professional money launderers involved**
- **Tax specialist “advisers” for fraudsters - setting up schemes**



# Detection

- **Different companies work together - central organized**
- **National and international connections**
- **Same goods sometimes traded more than once**
- **Quick change/exchange of suppliers / purchasers**
- **In beginning VAT declarations seem unsuspicious**
- **Market prices higher than trading price**
- **Paperwork excellent**
- **Freight forwarders – real transport**
- **Payment - cash or wire – directly after trade**
- **Payments to companies - not expected**
- **Buffer/Missing trader quick rising turnover**



# Professional enablers

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- Installing of structures
- International connections /contacts
- Tax law knowledge
- Payment methods
- Communication advices
- Selection of used commodities /services/non-tangible “goods”
- Advicer status in case of detection
- Sometimes initiate false declarations



# Detection

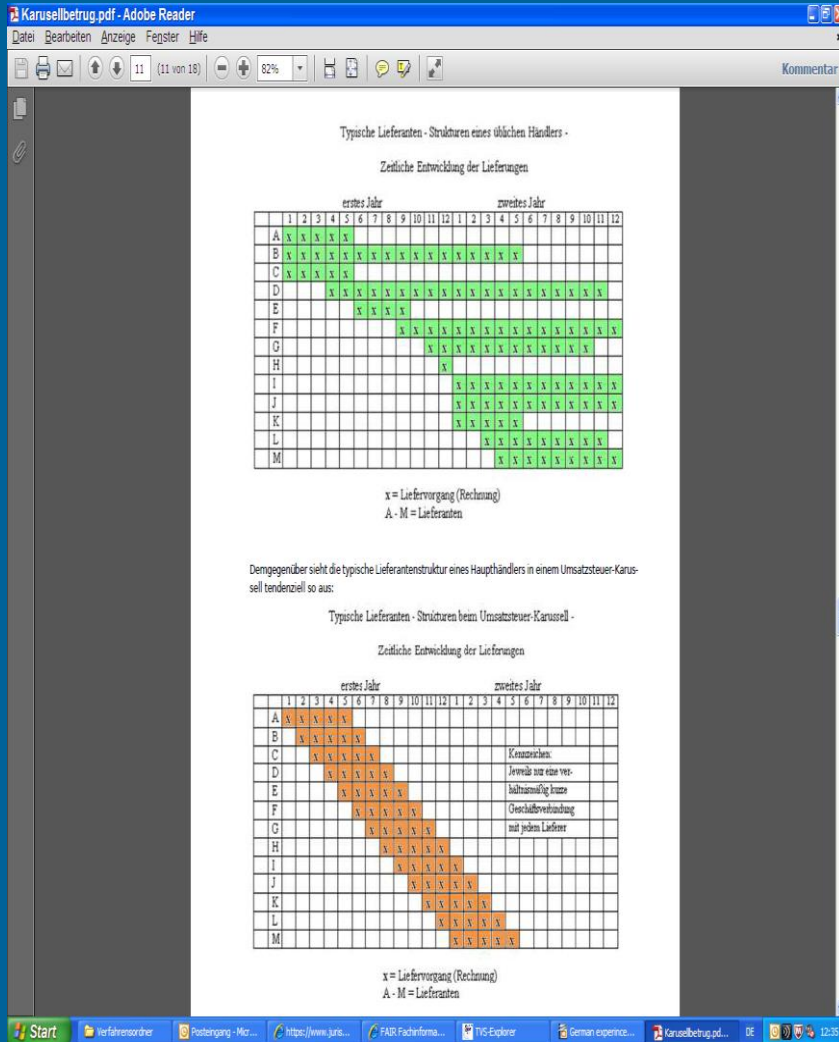


Diagram shows usual supplier structure

Diagram shows quick changing structure of suppliers within a carousel



# Detection

KKKUE  
DATEN

DAI2Y: KK-Umsatze - Anzeige  
FKR

20/09/12 / 15:15:13  
M397  
Filiale: 100/35

Nur Interne Konten

Konto-Nr. ISG

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Betrag

GVO

Memo

Buch-Tag

Valuta

Bemerkung

10,00-

18

97171

01.08.12

31.07.

0,20-

18

97190

01.08.12

30.07.

905.687,36

39

97235

01.08.12

01.08.

898.982,30-

09

97171

02.08.12

02.08.

172.336,40-

09

97171

03.08.12

03.08.

173.519,03

39

97235

03.08.12

03.08.

800,00-

62

97161

06.08.12

06.08.

337.741,20-

09

97171

07.08.12

07.08.

340.624,11

39

97235

07.08.12

07.08.

782,21-

34

97186

09.08.12

09.08.

8.677,25-

06

00100

17.08.12

17.08.

1.322,75-

55

00115

17.08.12

17.08.

300,00-

06

00100

17.08.12

17.08.

224,91-

35

97186

17.08.12

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356.851,73-

09

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21.08.12

21.08.

352.691,93-

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176,42-

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23.08.12

23.08.

160.771,28-

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27.08.12

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182.004,88

39

97235

27.08.12

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357.180,64-

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28.08.12

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359.642,88

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28.08.12

28.08.

32,64-

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31.08.

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353.960,95-

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04.09.12

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354.407,15

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04.09.

180.835,49-

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160.547,17

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05.09.

423,32-

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363.349,55-

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362.787,68

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11.09.12

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365.173,75-

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13.09.

364.609,34

39

97235

13.09.12

13.09.

368.516,32-

09

97171

19.09.12

19.09.

227,77-

35

97186

19.09.12

19.09.

367.947,14

39

97235

19.09.12

19.09.

bankaccount in  
carousel!

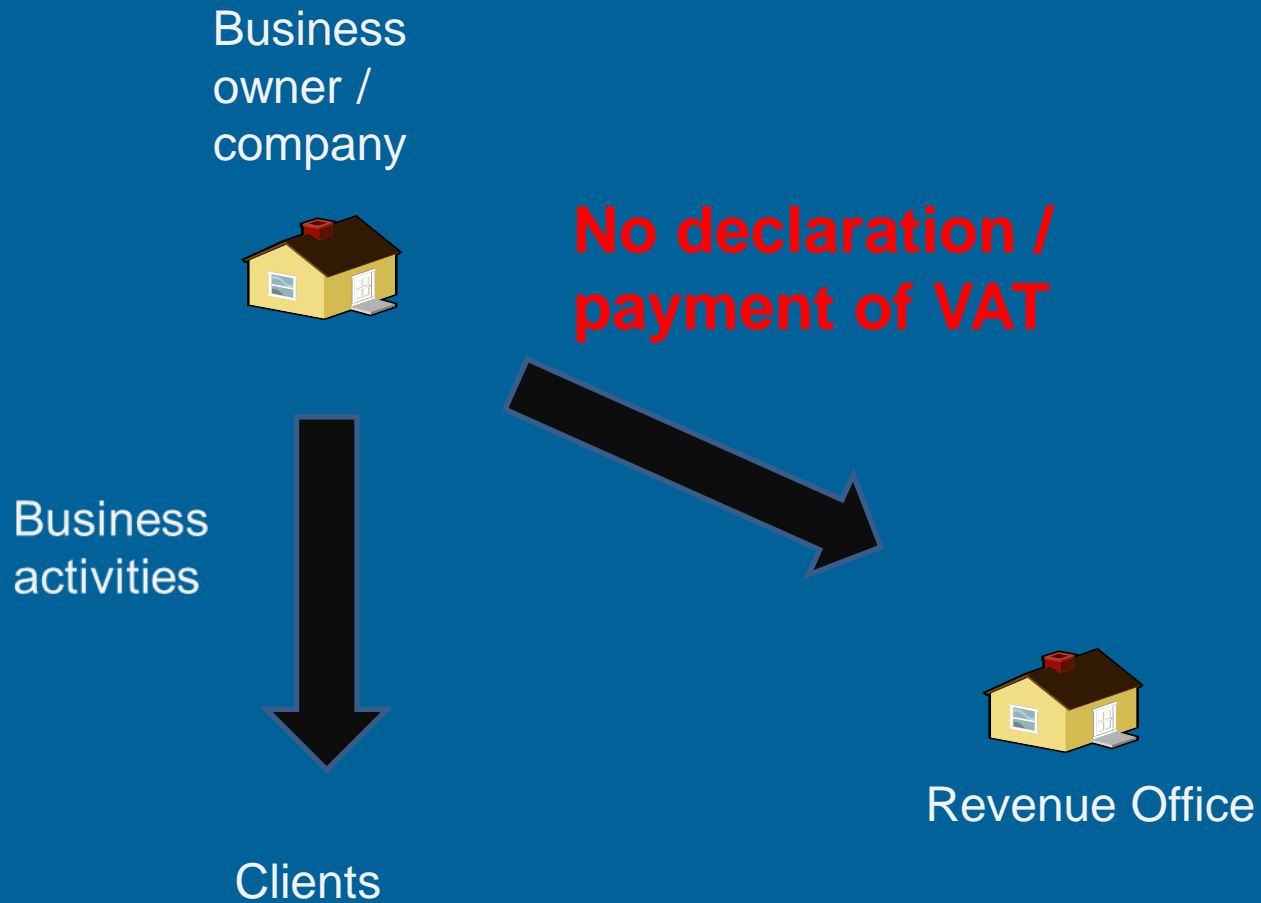


## c.) Non-Declaration VAT/Turnover

- The scheme
- The fraudulent effect
- Initiators
- Detection
- Professional enablers



# The Scheme





# The Fraudulent Effect

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- Tax damage
- Competition disadvantages
- Faked goods / brands etc.
- Influence on economy itself



# Initiators

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- Individuals
- Business owners – side business

generally

“Every businessman”



# Detection

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- usually difficult without indicators
- special technical investigative tech.
- business checks – regularly
- analyzing business while checks
- business figures / noticeable effects
- Whistleblowers
- Customs information – co-operation
- Police information
- consumer claims



# Professional enablers

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- Installing of structures
- Tax law knowledge
- Payment methods
- Advicer status in case of detection
- Sometimes initiate false declarations



## d.) Refund Fraud / Identity Fraud

- The scheme
- The fraudulent effect
- Initiators
- Detection
- Professional enablers



# The Scheme

Business owner /  
company/individuell



**Claim Refund -  
illegally**



Revenue Office



# The Fraudulent Effect

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- Tax damage
- Bribery/corruption
- Trust in system



# Initiators

---

- Individuals
- Business owners

generally

“Everybody”



# Detection

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- difficult without indicators
- Refundclaim audits
- invoice checks – regularly
- analyzing business while checks
- business figures / noticeable effects
- Whistleblowers
- Customs information – co-operation
- Police information –bribery/corruption



# Professional enablers

---

- Installing of structures
- Tax law knowledge
- Payment methods
- Advicer status in case of detection
- Sometimes initiate false declarations



# VAT-Fraud Approach

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- Initially be aware of problem
- Be aware of schemes
- Analyzation closed cases “learn of mistakes”
- Try to find weak points in systems / structures / etc.
- Try to close gaps / often within laws – promotion of findings
- Reverse Charge System - Reverse Charge



# VAT Fraud – Possible Answers

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## Re-/Action of tax administration

- **Training - build specialist**
- **Installing special units**
- **Automatic checks of tax declarations – database checks / use new technical investigative techniques**
- **Announced/non-announced checks/audits**
- **Market surveillance / intelligence**
- **Public information**
- **Co-operation police/customs/business unions/chamber of commerce**



# VAT Fraud

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- **Foundation – checks – audits of new founded companies**
- **Compliance surveillance – forms to be filled etc.**
- **Central databases with fraud schemes**
- **Access for every investigator**
- **Obligation to insert fraudulent scheme initially**
- **Access to STR**
- **Access to custom databases**
- **Check list - early alerts**



# VAT Fraud – Check List Missing Trader

## Indicators for missing trader

new founded company  
company act not very long, stopped when audit starts  
no declarations of VAT or ZERO Declarations  
VAT declarations but no payment  
bad liquidity of company  
no office rooms where company is registered  
no manager / employee where company is registered  
no mailbox  
registered at business services / professional enablers  
registered but only mobil number or foreign telefon number  
manager is not registered at the same place as company  
rented office/rooms but they aren't used for activities of company  
business runs in usual appartement houses/no business rooms  
managers are from abroad – living abroad  
managers do not speak national language / other native language  
managers installed are unemployed people / social benefiter without knowledge of business  
business bank accounts are abroad  
national bank account is only used for admin costs etc.  
People outside the company itself are aloud to act for the company – procura  
rising turnover within the first weeks/months – from zero to 100  
sudden rising of export/import activity  
company has only 3 suppliers and 3 clients  
invoices of company are missing basic facts! Chamber of commerce nr...  
no letter head/business forms for invoices etc.  
further running business with clients despite the fact that payments are missing for earlier trades



# VAT Fraud – Check List Buffer

## Indicators for buffers

rising turnover within the first weeks/months – from zero to 100

VAT payment and VAT refund almost same amount

small margin on a daily trading base

change of field where the activity has been

not many clients and suppliers

payment by using bank accounts from abroad

national bank account is only used for admin costs etc.

bank account is organized by people outside the company – bank account in favour of third person

invoices of company are missing basic facts!

no letter head/business forms for invoices etc.

further running business with clients despite the fact that payments are missing for earlier trades

no market prices are invoiced

trading with older goods – e.g. mobiles one year old

no margin – gain in trades

no guarantee goods etc.

invoices are paid very fast sometimes prior to the trade no missing payments

no costs for acquiring of clients / advertisement etc.



# VAT Fraud – Check List Distributor

## Indicators for distributors

high refund of VAT

only own freightforwarders are involved – no acception of freightforwarders suggested by clients

warehouses often abroad

trade only with pre-payments

company knows the whole chain of the goods – from missing trader-buffer with prices documents etc.

clients are exchanged on a daily one to one base



# VAT Fraud – Summary

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## Summary

- **Importance - being aware of problem**
- **Learn of prior investigations – database/intelligence/etc.**
- **Co-operation**
- **Supervisors/prosecutors/judges have to be informed about problems/ trends/ techniques used**
- **Publication - successful investigations**