



OECD International Academy for Tax Crime Investigation

VAT



VAT Fraud – German Experience

Main Fraud Schemes

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



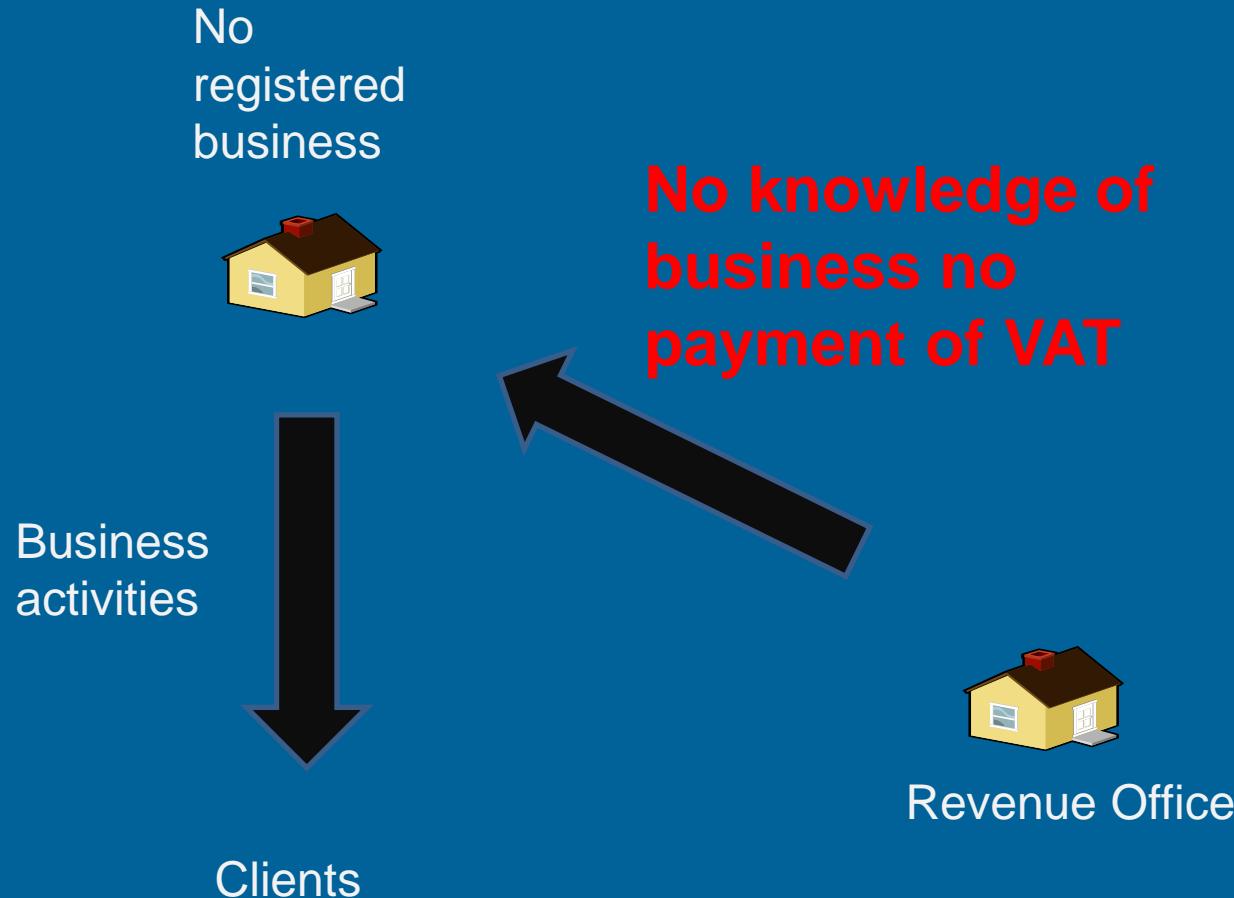
VAT Fraud – German Experience

a. Black Market

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



The Scheme





The Scheme

- 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

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



Initiators

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



Detection

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



Professional enablers

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

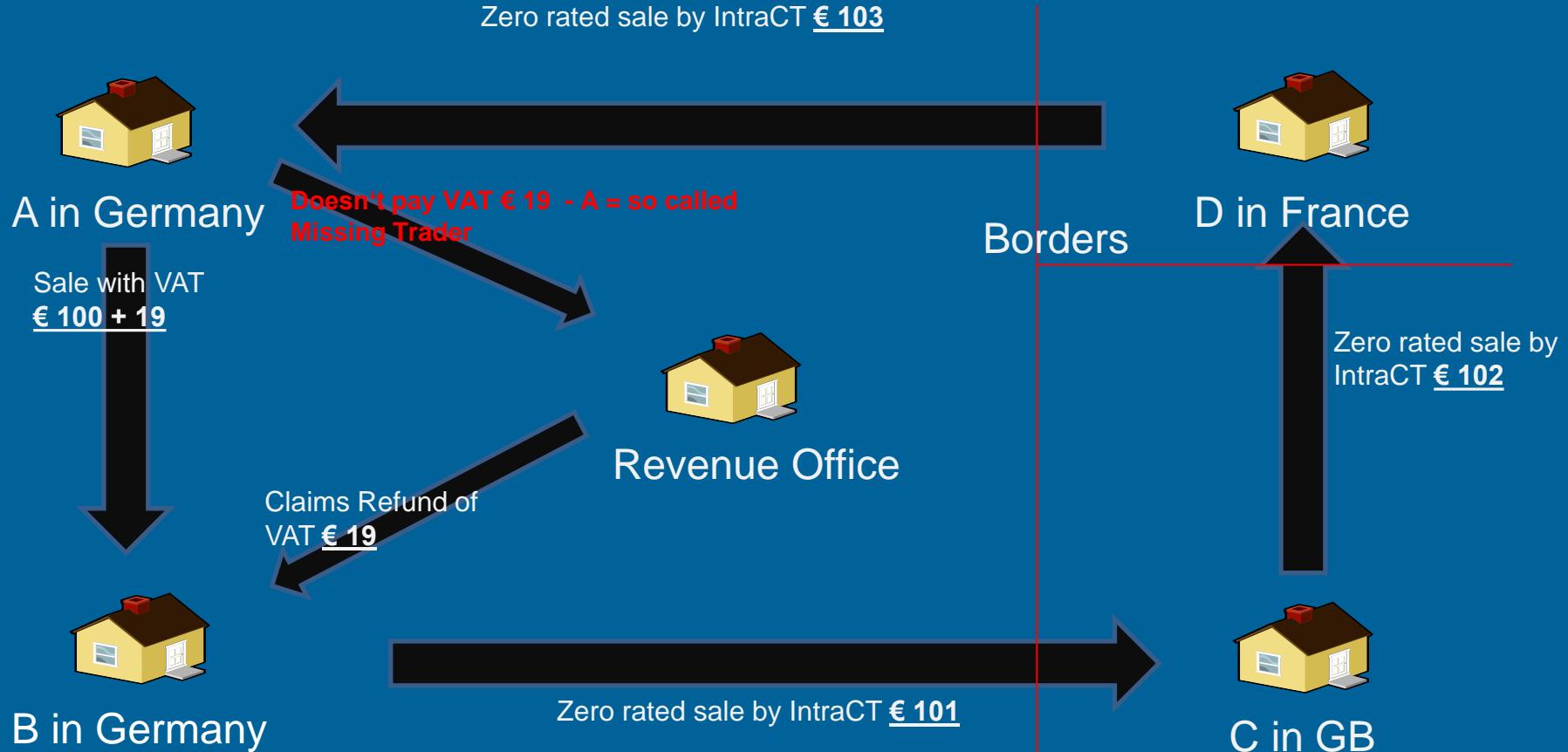


b. Carousel Fraud

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



The Scheme





The Fraudulent Effect

- 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

- **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

- **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

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



Initiators

- **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 then once**
- **Quick change/exchange of suppliers / purchasers**
- **In beginning VAT declarations seem unsuspicious**
- **Market prices higher then 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

- 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

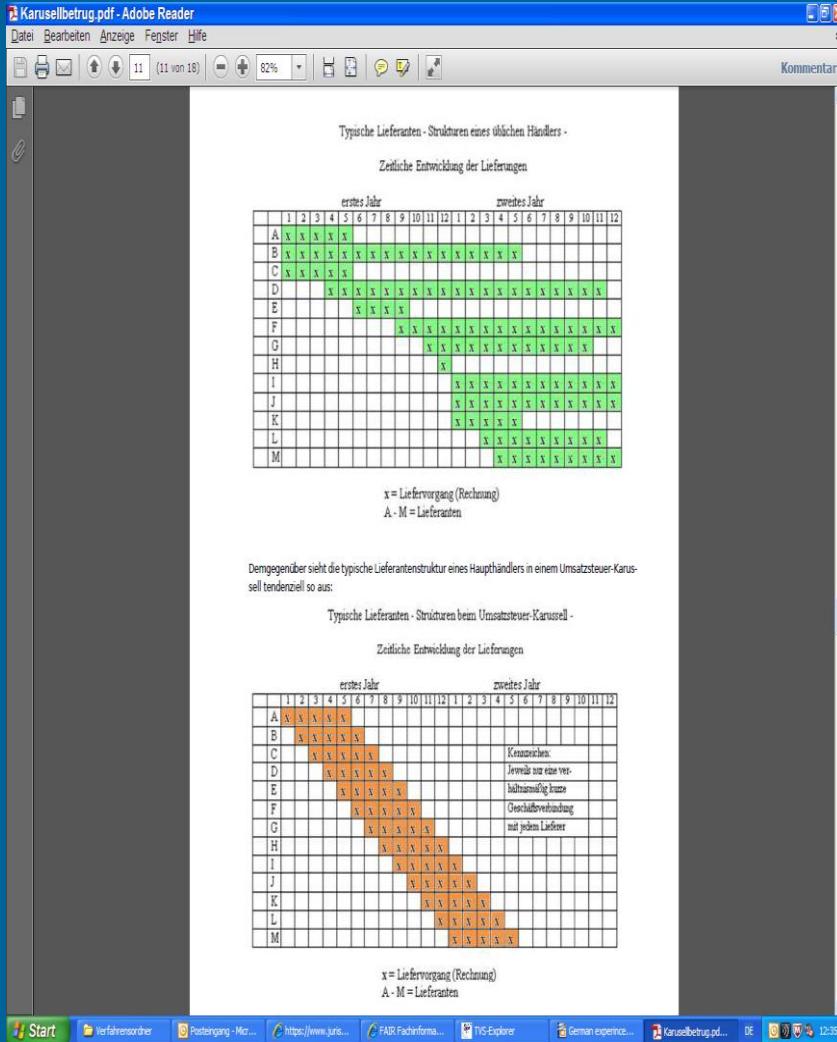


Diagram shows usual supplier structure

Diagram shows quick changing structure of suppliers within a carousel

Detection

KKKUG DATEN	DAISY: KK-Umsaetze - Anzeige				20/09/12 / 15:15:10
		FKT			M397 000/35
Nur Interne Konten					
Konto-Nr.	ISC	Betrag	GVO	Memo	Buch-Tag Valuta
3826849/00 EUR		10,00-	18	97171	01.08.12 31.07.
/00 EUR		0,20-	18	97190	01.08.12 30.07.
/00 EUR		905.687,36	39	97235	01.08.12 01.08.
/00 EUR		998.982,50-	09	97171	02.08.12 02.08.
/00 EUR		172.836,40-	09	97171	03.08.12 03.08.
/00 EUR		173.519,03	39	97235	03.08.12 03.08.
/00 EUR		800,00-	62	97161	06.08.12 06.08.
/00 EUR		337.741,20-	09	97171	07.08.12 07.08.
/00 EUR		340.624,11	39	97235	07.08.12 07.08.
/00 EUR		282,21-	34	97186	09.08.12 09.08.
/00 EUR		8.677,25-	06	00100	17.08.12 17.08.
/00 EUR		1.322,75-	55	00115	17.08.12 17.08.
/00 EUR		300,00-	06	00100	17.08.12 17.08.
/00 EUR		224,91-	35	97186	17.08.12 17.08.
/00 EUR		356.851,73-	09	97171	21.08.12 21.08.
3826849/00 EUR		352.691,93-	09	97171	21.08.12 21.08.
/00 EUR		400,00-	62	97161	21.08.12 21.08.
/00 EUR		355.130,53	39	97235	21.08.12 21.08.
/00 EUR		359.319,54	39	97235	21.08.12 21.08.
/00 EUR		800,00-	62	97161	22.08.12 22.08.
/00 EUR		176,42-	34	97186	23.08.12 23.08.
/00 EUR		160.771,28-	09	97171	27.08.12 27.08.
/00 EUR		182.304,88	39	97235	27.08.12 27.08.
/00 EUR		357.180,64-	09	97171	28.08.12 28.08.
/00 EUR		359.542,88	39	97235	28.08.12 28.08.
/00 EUR		32,64-	03	97190	31.08.12 31.08.
/00 EUR		10,00-	18	97171	03.09.12 31.08.
/00 EUR		0,30-	18	97190	03.09.12 30.08.
/00 EUR		353.960,95-	09	97171	04.09.12 04.09.
/00 EUR		354.407,15	39	97235	04.09.12 04.09.
/00 EUR		180.635,49-	09	97171	05.09.12 05.09.
3826849/00 EUR		180.547,17	39	97235	05.09.12 05.09.
/00 EUR		423,32-	34	97186	10.09.12 10.09.
/00 EUR		363.349,55-	09	97171	11.09.12 11.09.
/00 EUR		362.787,68	39	97235	11.09.12 11.09.
/00 EUR		365.173,75-	09	97171	13.09.12 13.09.
/00 EUR		364.609,34	39	97235	13.09.12 13.09.
/00 EUR		368.516,32-	09	97171	19.09.12 19.09.
/00 EUR		227,77-	35	97186	19.09.12 19.09.
/00 EUR		367.447,14	39	97235	19.09.12 19.09.

**bankaccount in
carousel!**

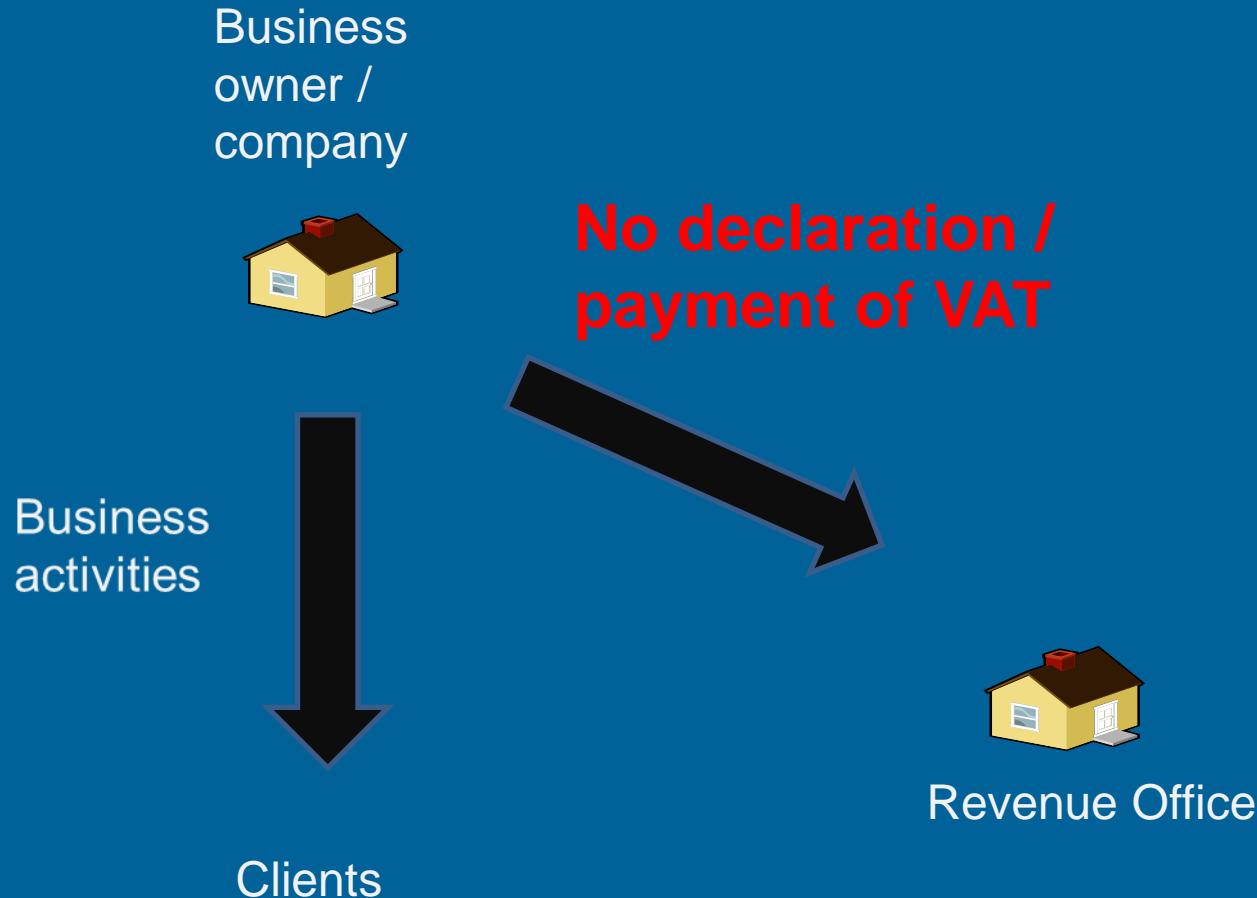


c.) Non-Declaration VAT/Turnover

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



The Scheme





The Fraudulent Effect

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



Initiators

- Individuals
- Business owners – side business

generally

“Every businessman”



Detection

- 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

- 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

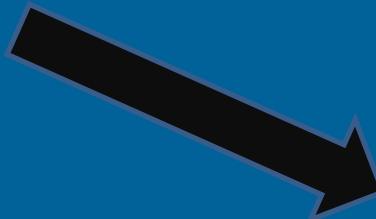


The Scheme

Business owner /
company/individuell



**Claim Refund -
illegally**



Revenue Office



The Fraudulent Effect

- Tax damage
- Bribery/corruption
- Trust in system



Initiators

- Individuals
- Business owners

generally

“Everybody”



Detection

- 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

- 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



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**



- **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 apartement 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 benefiters 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 acceptance 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



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**