

SUMMURY OF VAT/GST FRAUD

Outline of the entity

- F, a corporate entity, transported construction materials and subcontracted civil engineering, but it had been suffered from financial difficulties
- Since the former representative had passed away suddenly, F gained a large amount of insurance income (approximately 40 million yen) and then F recorded special incomes in its account books in 2016. The business had been inherited by the wife of the former representative.
- Since there was a record of a large amount of loss on disposal of property in 2016 in which special income was recorded in its account books, I felt suspicious and decided to examine F.

Outline of fraud

1 At first, I thought that F recorded a loss on disposal of property for the purpose of reducing the profit from insurance income. Therefore, I examined the non-current assets, a dump truck A (cost: 15 million yen), which was the target of the loss on disposal of property, but there were no materials such as a vehicle-inspection certificate, and I also didn't get any information about an entity that disposed a dump truck A.

I asked the representative to provide information, but she did not give a clear answer, and said that only former representative (her husband) knew it, but he had already died. Then I thought that purchasing of a dump truck A itself was fictitious.

2 F purchased a dump truck A in 2015. The former representative passed away in 2016. Income of F in 2015 is negative, so they didn't have to pay corporation income tax, but they had to pay consumption tax.

3 I returned to a Tax office after visiting F, I guessed as following: The purpose of purchasing of a dump truck A was not to record the loss on disposal of property, because F couldn't have foreseen the death of the former representative and gaining a large amount of insurance income at the time of purchasing (in 2015). Therefore, I came to think that the real purpose of fictional purchasing (if so) was to reduce consumption tax in 2015.

I recalculated the amount of consumption tax separately for cases when they got a dump truck A or didn't. Then, I could imagine that how F reduced consumption tax to the extent that it could manage to pay.

4 I told the representative and her acquaintance (the former representative's tax advisor) about the content of 3 and pursued them. Then, they admitted that they had applied purchase tax credit for consumption taxes to fraudulently reduce the amount of consumption tax by the purchasing of fictitious dump truck A. They also admitted that they had recorded the loss on disposal of property of a dump truck A to the purpose of reducing income that increased from insurance income.

5 Furthermore, in order to camouflage the fraud of 4 and to fraudulently reduce the amount of consumption tax, they admitted they had applied purchase tax credit for consumption taxes and depreciation by fictitious purchasing of dump trucks of B (cost: 15 million yen) & C (cost: 12 million yen) in 2016 and 2017.

Fiscal year	2015	2016	2017
Corporation Income Tax	0(deficit)	0 (credit of Tax losses carried forward)	0(deficit)
Consumption Tax	F needed to pay	F needed to pay	F needed to pay
Contents of recording in accounting books	<p>① F acquired dump truck A, and applied purchase tax credit for consumption taxes</p>	<p>② Recorded a special income by gaining large amount of insurance income.</p> <p>③ Recorded a loss on disposal of property in accounting books.</p> <p>④ F acquired dump truck B, and applied purchase tax credit for consumption taxes and depreciation</p>	<p>⑤ F acquired dump truck C, and applied purchase tax credit for consumption taxes and depreciation</p>

Fraud ! !