AFRICAN TAX ADMINISTRATION FORUM
FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

Missing trader fraud

What is missing trader fraud?

- Trader goes missing without paying us the VAT owed
- May submit the return and simply not pay; or
- Not submit the return and not pay
- May be a very short and simple transaction chain
- Transaction chain includes a VAT repayment

History: a cautionary tale

designed to aid and abet fraud. One widely practised form of fraud involved selling gold coin or bullion to legitimate dealers, charging VAT and then failing to account for it to C&E. In some instances the gold was smuggled into the UK. The C&E's Internal Audit Unit estimated that by March 1982 the annual rate of VAT lost through gold frauds was £120 million but since then C&E maintain that administrative and legislative measures have reduced, although not completely eliminated, the scope for these frauds.

investigation within a specific period. Even if this were possible, it would be extremely difficult to forecast the manpower resources required. Some operations may not involve a large manpower effort whilst others, such as those involving VAT gold frauds, are the reverse.

How much do you think the UK was losing PA through missing trader fraud through the 2000s?

A £1.65bn

B £2.64bn

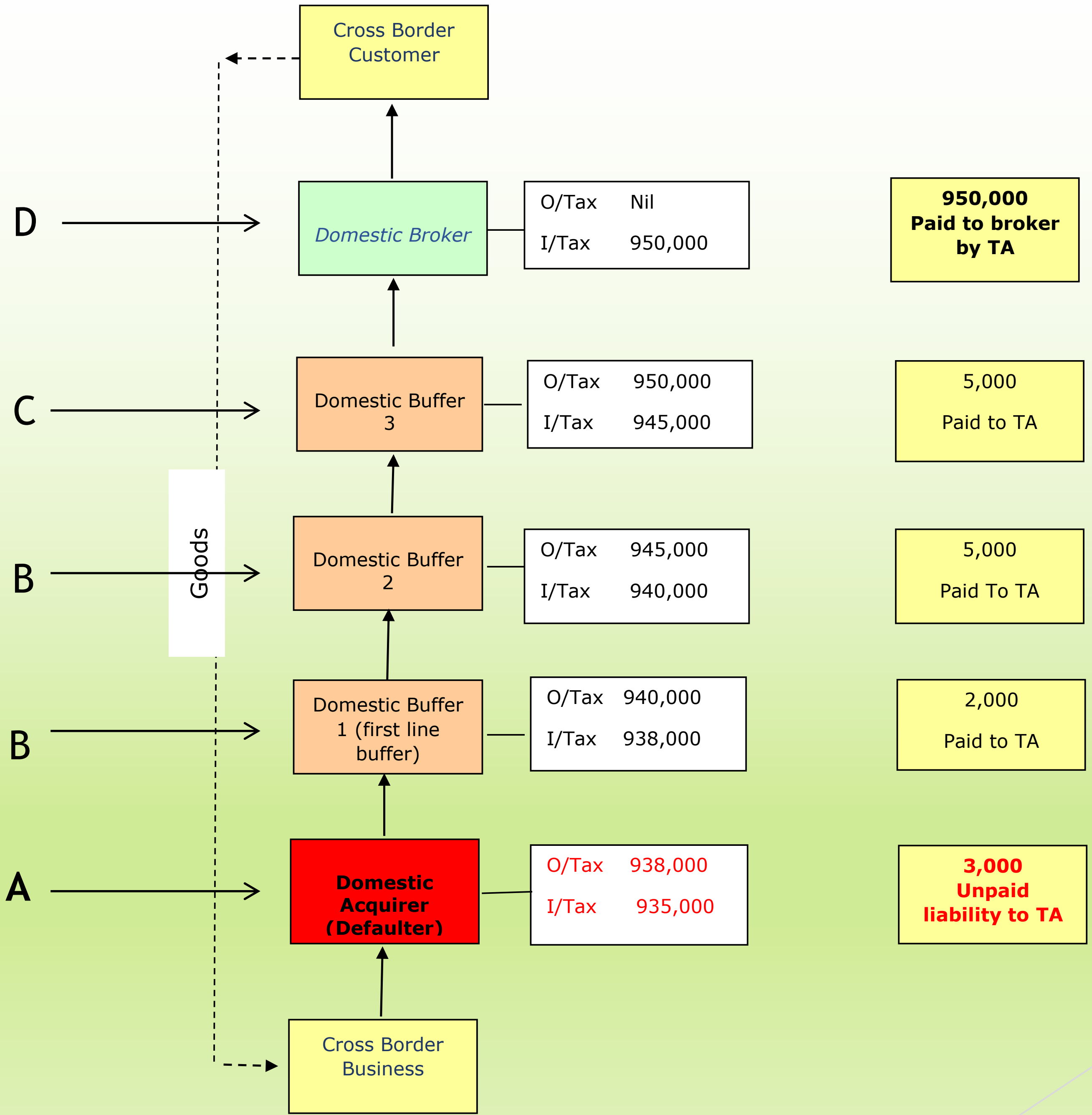
C £8.4bn

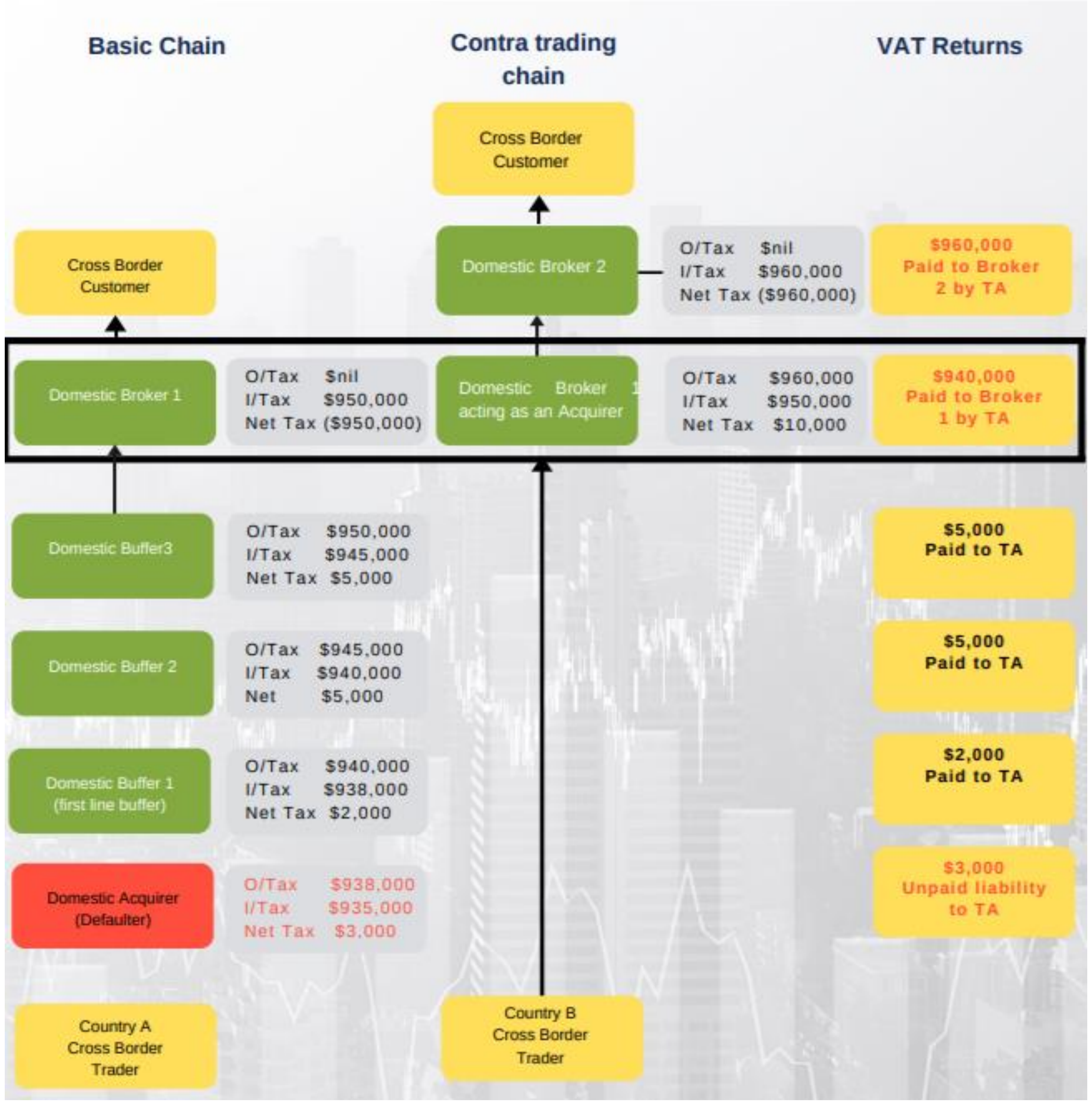
Two important contributory factors:

- Cross border trade – EU free movement of goods and people
- The 6th VAT Directive – the right to recover input tax

Missing trader fraud (carousel) transaction chain

Basic chain **VAT Returns**




Basic Chain
Contra trading chain
VAT Returns
Cross Border Customer
Cross Border Customer
Domestic Broker 2
O/Tax $nil
I/Tax $960,000
Net Tax ($960,000)
$960,000 Paid to Broker 2 by TA
Domestic Broker 1
O/Tax $nil
I/Tax $950,000
Net Tax ($950,000)
Domestic Broker 1 acting as an Acquirer
O/Tax $960,000
I/Tax $950,000
Net Tax $10,000
$940,000 Paid to Broker 1 by TA
Domestic Buffer3
O/Tax $950,000
I/Tax $945,000
Net Tax $5,000
$5,000 Paid to TA
Domestic Buffer 2
O/Tax $945,000
I/Tax $940,000
Net $5,000
$5,000 Paid to TA
Domestic Buffer 1 (first line buffer)
O/Tax $940,000
I/Tax $938,000
Net Tax $2,000
$2,000 Paid to TA
Domestic Acquirer (Defaulter)
O/Tax $938,000
I/Tax $935,000
Net Tax $3,000
$3,000 Unpaid liability to TA
Country A Cross Border Trader
Country B Cross Border Trader

Participants

- Acquirer
- Defaulter
- Buffer
- Broker
- Hijack trader

Acquirer

The acquirer is a VAT registered entity that imports goods from a foreign jurisdiction and sells them in the local market to a VAT registered entity before disappearing with unpaid VAT liability.

Defaulter

- The defaulter is the entity that defaults on its VAT liability. and ‘disappears’ when the revenue authority tries to make contact, leaving no forwarding address, books or records.

- The defaulter can also be known as ‘the missing trader’, ‘the acquirer’, or ‘the hijack trader’, depending on the particular facts of the transaction and VAT default.

Buffer

- The buffer is a registered taxable person who is placed between the defaulter and the broker in the transaction chain.
- The buffer is there to create tiers of supply that mirrors a legitimate transaction chain with the intention mask the VAT fraud.
- The number of buffers in a transaction chain vary according to the complexity of the MTF arrangement.
- Buffers are typically found in carousel fraud arrangements

Broker

- The broker is a VAT registered taxable person who either dispatches or exports the goods or services in the MTF chain.

- The broker is at the end of the transaction chain and incurs an input tax liability but no output tax liability, thus putting it in a VAT refund position.

Hijack trader

- The hijack trader is an entity that fraudulently uses the tax identity number of another entity or person to conduct transactions.

- In most cases the person whose tax identity was hijacked will not know about this until the tax authority makes contact to verify the supplies.

Commodities

- Anything
- Generally high value, low volume
- Regardless of whether there is proven consumer demand for the goods
- Examples include:
  - Mobile phones
  - Computer chips
  - Soft drinks
  - Milk quotas
  - Unallocated precious metals
  - Precious metals
  - Provision of labour services

Indicators: registration

- Business activity
- Limited company
- Officers or directors of the company are completely new to the business activity
- Inquiries indicate that business activities appear contrived
- This may include ‘captive’ suppliers and customers
- Very little ‘due diligence’ checks carried out
- Company officers appear to be working from a script & cannot answer detailed questions about the business model etc.
- PPOB may be known accommodation address

Indicators: returns

- Pattern of trading changes suddenly e.g. previously nil returns, suddenly start declaring high values
- Exponential growth in turnover
- Little difference between the value of inputs to outputs, suggesting very low margins
- Significant repayment/refund claims
- Missing return(s)
- Very little incidental input tax compared to turnover figures

Indicators: business premises & records

- Minimal signs of genuine business activity
- Trading may be confined to a few short bursts of high value activity a month
- No stock held, all purchases are resold almost immediately
- Payment arrangements may be unusual. E.g. if A sells to B who sells to C it may be that C pays A and B the difference – so a split payments are not uncommon.
- There appears to be little or no negotiating on price
- Accountants may be known missing trader fraud facilitators
- Little evidence that consignments of goods have ever been delivered to your trader or that your trader has ever seen them
- Suggestions from the trader that they have arranged for goods to be independently inspected do not stand up to closer scrutiny

Countermeasures

Three main categories:

- A network of dedicated nationwide specialist compliance officers falling under one leadership span responsible for day to day compliance activities
- A dedicated specialist investigation function responsible for conducting criminal investigations and taking action to track and seize assets
- Introduction of new legislative measures to combat the fraud

A network of dedicated nationwide specialist compliance officers falling under one leadership span responsible for day to day compliance activities will:

- Visit businesses at the pre-registration stage and deny registration if appropriate
- Visit all registered businesses to verify transactions and make in depth inquiries
- Will deregister businesses involved in missing trader fraud promptly if business is dormant
- Apply foreshortened accounting periods where there is risk of default (existing measure)
- Will refer cases for criminal investigation
- Will carry out in depth inquiries into repayment claims with a view to denying input tax where transactions are connected to fraud
- Where a director or officer of a business has been connected with a VAT debt will issue a notice of requirement to provide security
- Will consult with specialist resources such as solicitors and accountants to ensure decisions are legally sound and will stand up to scrutiny
- Will issue tax assessments

A dedicated specialist investigation function responsible for conducting criminal investigations and taking action to track and seize assets will:

- Undertake criminal investigations into missing trader fraud
- Will consult with specialist expertise in the network
- Will take action to seize assets from the fraud
- Where criminal investigation is not possible will refer back to the network for appropriate civil action
- Act on intelligence received

New legislative measures to combat the fraud may include:

- A joint and several liability measure
- A reverse charge mechanism
- Penalties applied to accountants for facilitating the fraud
- Application of new legal precedents

In conclusion

- Generally works better where the VAT refund mechanism is efficient
- Generally works well if you have easy cross border trade
- Needs vigilance at all stages – pre-registration and onwards
- Don't ignore at the early stages – the quicker your technical and legal experts get together the better
- A national strategy is important
- Don't stop being vigilant because you think it won't happen here, or because you think you have it beaten
- Inside help?