

## Treasury sees a rise in VAT fraud

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**The amount of money being lost by the Treasury to VAT carousel fraud soared in the last financial year.**

The Treasury has said it lost between £2bn and £3bn in 2005-06 because of such fraudulent activities.

That was a rise of about 50% on the loss of between £1.2bn and £1.9bn in the previous financial year.

The fraud involves criminals importing goods from Europe, then re-exporting them to reclaim VAT that was never collected in the first place.

The opportunity to send goods back and forth across the Channel - hence the name carousel - relies on the fact that goods can be imported legitimately from other EU countries, free of VAT.

**A significant proportion of attempted frauds are now being stopped**  
Treasury statement

They can then be sold on in the UK, with the VAT being added at each point in the UK supply chain.

That is supposed to be collected and passed on to HM Revenue & Customs (HMRC) each time.

Typically, the fraudsters bring in shipments of small valuable goods, such as mobile phones and computer chips, and pass them through a contrived supply chain before re-exporting them.

At this point, a claim for a VAT refund is submitted.

HMRC is then obliged to pay up unless it can prove that the VAT due on the goods, when they were sold after importation, was never actually collected.

### 'Complete mess'

The Treasury said: "HMRC was obliged to repay suspect claims in the absence of sufficient evidence and robust legal arguments to deny them.

"However, a significant proportion of attempted frauds are now being stopped and the strengthened operational strategy has greatly reduced the level of attack, as reflected in the rapid fall in missing imports," it added.

The government had been hoping to introduce by 1 December a special variant on the VAT system, aimed specifically at high-value electronic goods.

Under this system, known as the reverse charge, VAT could only be collected and accounted for at the point of sale to the general public, thus cutting down the opportunity for fraudulent supply chains and bogus refunds.

However, this derogation from standard EU VAT rules has not so far been agreed by the EU authorities, although HMRC says it is hopeful that agreement will be forthcoming in the New Year.

Conservative MP and shadow paymaster general Mark Francois called the chancellor's strategy for dealing with VAT fraud "a complete mess". Gordon Brown had twice failed to gain EU approval for the Treasury's plan to introduce a reverse VAT charge, he said.

### **New measures**

So far in 2006, more than £26bn worth of trade associated with the fraudulent imports and exports has been recorded by HMRC, although this has tailed off in the last few months because of various anti-avoidance measures.

The government has beefed up its efforts even more by adding a further 100 HMRC staff to check the validity of VAT refund claims.

That brings the number trying to combat carousel fraud to 1,500.

The former chairman of HMRC, David Varney, last year described the fraud as the most serious attack yet seen on the UK tax system.

Story from BBC NEWS:  
<http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/6213376.stm>

Published: 2006/12/06 16:33:18 GMT

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