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## UPDATE 2-UK claims French U-turn in VAT fraud fight

(Adds comment from French government spokesman)

By James Mackenzie

PARIS, Dec 13 (Reuters) - Britain on Wednesday claimed a French U-turn on a plan to fight value added tax (VAT) fraud as authorities in Paris investigated suspected rackets reported to have cut revenues by up to 19 billion euros (\$25.22 billion).

The French government confirmed it had begun an investigation into suspected VAT fraud after financial daily Les Echos said officials believed it had cost the state between 13 and 19 billion euros in lost tax revenues.

That would be equivalent to as much as 15 percent of the expected 2006 VAT take of some 126 billion euros.

"We observed an unusual fluctuation in trade between France, Britain and Poland over the first six months of the year," Jean-Francois Cope, the budget minister and official government spokesman told reporters.

"That prompted us to launch an investigation," he said, adding that anti-fraud measures had been stepped up over the past two years.

The comments, which follow mounting concern in the European Union over the scale of cross-border VAT fraud, came on the same day that British finance minister Gordon Brown said he had won backing from Paris on introducing a "reverse charge" mechanism to tackle VAT fraud.

The plan, under which value-added tax (VAT) would be paid only by the supplier at the end of the chain, had failed to secure the required backing of EU states like France at a meeting of finance ministers in Brussels last month.

On that occasion, France feared that if Britain alone adopted the mechanism it would lead to VAT fraud moving from Britain to other member states. It also believed there were better ways to tackle VAT fraud.

Countries have been paying close attention to the issue which has cost governments across the European Union billions of euros in lost tax revenues.

France's Cope did not comment directly on Brown's remarks to a British parliamentary committee that France now supported the "reverse charge" mechanism.

Common fraud schemes include so-called "carousels" where shadow supplier firms operating in other European countries are used to bill for high value-added products such as mobile telephones or electronic components.

The importers then claim back VAT, while the "suppliers" then disappear without paying the tax.

Brown told a parliamentary committee that France had now agreed on the need to impose the "reverse charge" and this would help the scheme go ahead in Britain.

Les Echos said officials had already identified some 300 million euros in false declarations and the total could rise to between 13 and 19 billion euros.

(Additional reporting by Sumeet Desai in London, Swaha Pattanaik in Paris)

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