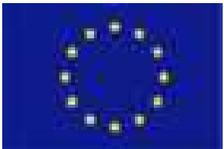


Organised VAT fraud in the EU: mixing the money flows



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Organised VAT fraud: the stakes

- Significant loss of revenue for the national and EU budgets (177 bln in 2012)
- Distorts internal market and harms free competition
- New innovative forms of fraud are constantly emerging
- Funds fraudulent and criminal activities
- Corruption

The wider EU context

| Eastern and SE Europe | Western Europe |
|--|---|
| VAT contributes to 20 -30 % of all tax revenues | VAT contributes to 15-20% of all tax revenues |
| VAT gap above the average for EU-26 (>17%) | VAT gap below the average for EU-26 (<17%) |
| Major threat: acquisition fraud | Major threat: carousel fraud |
| Involvement of politically protected businessman (oligarchs) | Involvement of high risk and criminal entrepreneurs |

The schemes

- **Acquisition fraud** – goods are destined to the domestic market
- **Carousel fraud** – goods are imported and re-exported in circular pattern, thus providing for unlawful tax rebate claims
- **Fictitious intra-community deliveries / fictitious export** – goods are exported on paper and traded on the black market
- **Invoice mills** – forging fictitious invoices on fee-for service basis for legitimate companies willing to diminish tax liabilities

The actors: the inner circle players

- In many cases the ring leaders are the investors
- High risk entrepreneurs investing in high-profit projects
- Legitimate businessmen running companies in unfavorable financial conditions
- In Eastern Europe - politically protected businessmen (oligarchs)
- Criminal entrepreneurs, involved in swindles, excise frauds
- Criminal entrepreneurs investing proceeds from drug trafficking, car theft

The outer circle players and facilitators

The outer circle players

- Marginalised persons acting as straw men
- Intermediaries – supervisors, recruiters, lawyers, accountants
- Corrupt officers from tax, customs, law enforcement authorities
- Corrupt bank servants

The facilitators

- Conduit companies, buffers, final recipients
- Transportation companies, warehouse operators
- Accounting service providers

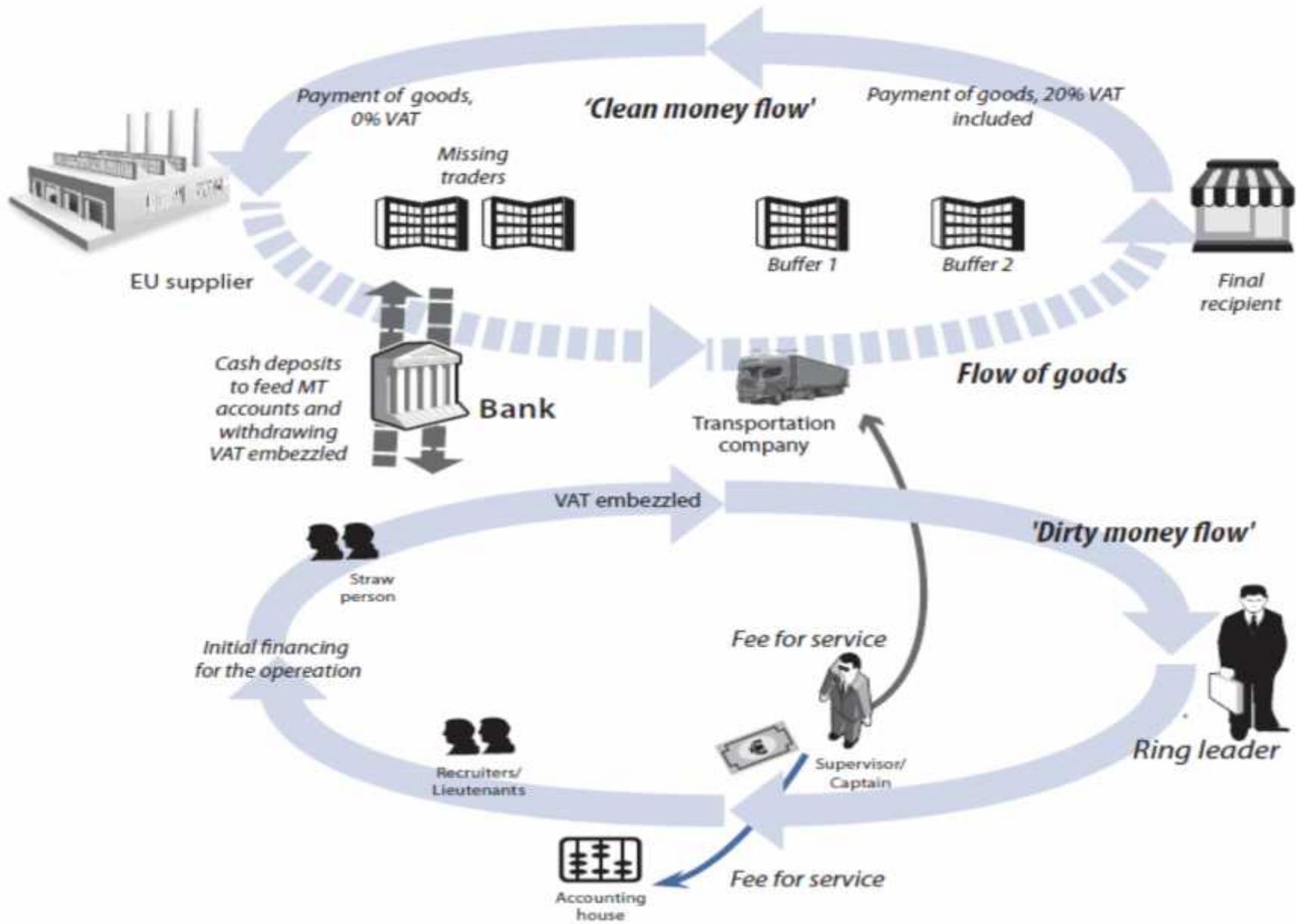
Sources of capital

| Self-financing | External financing |
|--|--|
| Reinvesting proceeds from previous cycles of VAT fraud | Bank loans (BG) |
| Reinvesting proceeds from other criminal businesses (BE, BG, CZ) | European or national subsidies (ES) |
| Revenues from the legitimate business (BG, CZ) | Trade credit from the importer (BG) |
| Personal savings of the ring leader (BG) | Advanced payment from end customer (BG, DE) |
| Grey revenues from legitimate business (BG, CZ) | Loan from a legitimate businessman (BE, BG) |
| | Loan from criminal entrepreneur (BE, BG, DK, EE, ES) |

Settlement of payments between different actors

- **The ‘clean money flow’**: financial transactions between the involved legal entities - settled through regular bank transfers
- **The ‘dirty money flow’** - payments to the physical persons involved in the scheme (ring leader, facilitators):
 - In cash
 - Through a bank transfer to offshore bank account
- **The point of intersection**: the bank accounts of the ‘missing trader’:
 - Cash deposit to company’s bank account
 - Bank transfer
 - Risk mitigation strategies

FIGURE 8. EXAMPLE OF SETTLEMENT OF PAYMENTS IN A VAT FRAUD NETWORK



Costs for doing business

- Purchase of real goods or services
- Price discounts to final recipients (acquisition fraud)
- Transportation and logistics
- Acquiring or incorporation of companies
- Corruption costs
- Remuneration of fraudulent ring actors (straw men, buffers, supervisors, etc.) and facilitators (accountants, etc.)

Costs needed to start and complete a fraudulent cycle

| Type of cost | Item costs (€) | Overall costs (€) |
|---|---|-------------------|
| Establishing shell companies (6 missing traders and 2 buffers) | 200-300 per company | 2,500 |
| Straw men's remuneration (6 straw men) | 200 per person/month | 1,200 |
| Buffer's remuneration (2 buffers) | 2,500 per person/month + 0.5% of the value of each invoice | 2,050 |
| Lieutenant/recruiter (2 lieutenants) | 500 per month | 1,000 |
| Captain/supervisor | 1,000 per month | 1,000 |
| Accounting company | 1-1.5% of the value of each prepared invoice | 2,100 |
| Purchase cost of grain (600-660 tonnes) | 320-350 per tonne | 210,000 |
| Transport (30 trucks, 1 truck ->20-22 tonnes) | 50 per truck | 1,500 |
| Corruption fees | per month | 5,000 |
| | Total investment per one month cycle | 226,350 |
| | Sell price (500 per MT without VAT) | 300,000 |
| | Net revenue | 73,650 |
| | VAT refund expected | 60,000 |
| | Profit (VAT + net revenue) | 133,650 |

Profits and profit sharing

- ✓ Size of profits depends on: rate of VAT, type, scale and complexity of the scheme, number of actors involved;
- ✓ 5-10% of the fraudulent turnover in trade-based schemes
- ✓ 10-15% of the VAT cleared in fee-for-service schemes
- ✓ Ring leader keeps the lion's share (50% or more of the defrauded VAT)
- ✓ Owner/ manager of 'buffer' - 0.5 % of each transaction, plus a fixed fee (500-1000 euro)
- ✓ Rank –and file actors and facilitators receive a pre-agreed fee

Investment strategies

- Investing in criminal businesses – mainly new fraud cycles
- Reinvesting in own legitimate business
- Investing in legitimate cash-intensive businesses (night clubs, restaurants, hotels, etc.) – CZ, GR
- Investing in legitimate business that can be used as a cover-up for their criminal activities (transportation companies) – BE
- Real estate (BG, CZ)
- Putting money aside for a rainy day (safety deposit boxes, bank accounts abroad, gold) - BE, BG, LU, PT, FI

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