

4. VAT FRAUD-RELATED CORRUPTION

4.1. THE DAMAGE

The business community, the administration, and the analysts are unanimous in their assessment that VAT fraud is larger by far than the other kinds of tax fraud, both in absolute terms and as a proportion of total budget revenue lost. Still, there is no established methodology in Bulgaria for a more or less accurate quantification of this assessment. According to GTD data, the documented revenue loss caused by offences under the Value Added Tax Act (VATA) amounted to an average of BGN 280-300 million annually, or 10-12 per cent of VAT revenue collected, over the 2000–2004 period. The actual loss, according to the administration's own estimates, was two to four times bigger, for an annual average of BGN 600-1,200 million or 20-45 per cent of VAT revenue collected.²⁹ International estimates have been cursory and sporadic. For example, in 2002, a team of Canadian experts estimated the VAT evaded at BGN 605 million (31.5% of VAT revenue collected) in 1999, and at BGN 454 million (19.4%), in 2000 (SG Group, 2002). According to World Bank 2002 estimates, the VAT revenue lost to tax offenders amounted to almost BGN 900 million or 33 per cent of VAT revenue collected (World Bank, 2003).

The damage caused by VAT fraud is not limited to the public sector. Its adverse effect on the private sector comes primarily in the form of unfair competition and market distortion. These disrupt normal business development based on offering higher quality at lower prices. Businesses which survive are not the most productive ones but those who are better at evading taxes and pulling political and administrative strings.

Lastly, we should not ignore the direct financial loss caused to *bona fide* taxpayers: having unwittingly fallen prey to fraudsters, they risk being denied tax credit.

VAT fraud comes in two broad varieties: 1. *VAT evasion* schemes; and 2. *unlawful VAT refund* schemes, using a chain of fictitious transactions and traders.

4.2. VAT EVASION

In most cases, this kind of VAT fraud aims at tax savings and price advantages in respect of goods and services actually produced and supplied. The loss incurred by the Treasury is equal to the tax unaccounted for and uncollected on the value actually added. The offenders resort to conventional means, such as:

²⁹ Доклад на Временната анкетна комисия за разследване на измамите с ДДС към 39-ото Народно събрание [Report of the 39th National Assembly's Temporary Committee of Inquiry into VAT Fraud].

- (a) underreporting taxable sales; or
- (b) overstating taxable costs to claim a larger tax credit.

Underreporting taxable sales can be done in either of the following ways:

- (a) making sales without issuing an invoice;
- (b) invoicing a sales price smaller than the actual one;
- (c) invoicing smaller quantities than actually sold.

In theory, the main advantage of the tax-credit VAT system is that, even if the trader is not VAT-registered or chooses to evade its VAT liability, the tax is collectable from the next trader down the supply chain. And even if the non-compliant trader is an end supplier, the loss to the Treasury is limited to the tax on the value added by the end supplier, rather than on the full value added along the supply chain.³⁰ None of this is the case in the systems based on a single levying of the tax on consumer sales, such as the US sales tax. In those systems, if the retailer fails to register a sale, the tax on the full value added is lost by the Treasury, rather than just on the value added by the retailer. Moreover, the retailer, of all the suppliers and purchasers in the supply chain, is best placed to evade the tax as the end buyer usually does not need to register the transaction for tax purposes. This is why, in countries where there is a great number of end suppliers and a high risk that they may choose not report end sales, the tax-credit VAT produces a better fiscal effect than the sales tax.

Another advantage of the tax-credit VAT often cited is that the purchaser, especially if not an end consumer, has the incentive of requiring the supplier to issue a VAT invoice so that the purchaser can credit the VAT paid on the supply to its tax liability in respect of value added and charged to its purchasers down the line. The purchaser, if a compliant taxpayer, pressures its supplier to register the supply, thereby helping the tax authorities collect the tax. That is to say, in theory at least, VAT is capable of 'self-administration', unlike the sales tax.

However, in practice, these theoretical advantages offer a rather mixed blessing. If an invoice up the supply chain does not state the actual value of the transaction, traders down the chain, even if they wish to be tax-compliant, may be forced to understate value themselves so as to avoid paying the tax owed, but evaded, by their supplier. A chain reaction is triggered (as illustrated in Table 9): the producer invoices at lower than the actual price, and the distributor and the retailer have no choice but to do the same or, else, the tax evaded by the supplier up the chain will have to be paid by the next supplier down the chain, who has no proper purchase invoice to support its actual cost of goods sold. Even if, as in Scenario A, they choose to report the full value added by them, i.e., pay the full amount of tax on it, they will not be able to invoice actual prices to their buyers as this would mean paying also the VAT evaded by their supplier, together with a higher income tax. And even if the trader is VAT-exempt (as the retailer in the example), the income-tax consideration will make it understate its sales price as well.

³⁰ An exception to this rule is where a VAT-registered end supplier not only evades the tax, but also successfully claims a tax credit. The abuse of the tax-credit system is discussed in 4.3 below.

Table 9. Example: VAT Evasion-Fraud Chain Reaction

Compliant Traders Chain				
	Producer	Distributor	Retailer	Consumer
Net Cost	100	200	300	460
VAT Paid	20	40	60	60
Value Added	100	100	100	
Sales Price Net of VAT	200	300	400	
VAT	40	60	0	
End Sales Price	240	360	460	
VAT Payable	20	20	0	
Scenario A. Value Understated on Invoice by One				
	Producer	Distributor	Retailer	Consumer
Actual Net Cost, of which:	100	200	300	450
Unreported	0	50	50	50
Invoiced	100	150	250	400
VAT Paid	20	30	50	50
Value Added	100	100	100	
Reported Value Added	50	100	100	
Sales Price	200	300	450	
Invoiced Price Net of VAT	150	250	400	
VAT	30	50	0	
End Price Invoiced	180	300	400	
VAT Payable	10	20	0	
Scenario B. Value Understated on Invoice by All				
	Producer	Distributor	Retailer	Consumer
Actual Net Cost, of which:	100	200	300	440
Unreported	0	50	100	150
Invoiced	100	150	200	290
VAT Paid	20	30	40	40
Value Added	100	100	100	
Reported Value Added	50	50	50	
Sales Price	200	300	440	
Invoiced Price Net of VAT	150	200	290	
VAT	30	40	0	
End Price Invoiced	180	240	290	
VAT Payable	10	10	0	

The chain reaction is triggered by the VAT-registered producer, who utilises raw materials worth 100 and adds another 100 of value. The traders also add value of 100 each. Thereby, the product's value becomes 400, and the VAT payable on it, 60 (the end transaction is not subject to VAT). In Scenario A, the traders honour their part of the VAT liability, but in order to avoid the tax evaded upstream, they have to understate costs and prices on their invoices. In Scenario B, the traders make the most of having to understate values on their invoices by themselves evading some of the VAT on their own value added.

If the traders down the chain are forced by the first supplier's behaviour to understate sales prices, they are also less likely to pay the full amount of tax on their own value added. Scenario B (in the example) is rather more likely: the traders down the chain will themselves seek to benefit from the game by not only concealing the understatement of value added before them but also, in their turn, invoicing at prices below their own value added. Thereby, the correlation between crime and punishment is reversed: if, being made to conceal someone else's tax evasion, the traders run the risk of detection and punishment, their rational response will be to maximise profits by further non-compliance to offset contingent losses, in the event of detection and punishment. This becomes an especially powerful driver where the severity of the punishment/penalty is not in any clearly fixed proportion to the gravity of the offence/amount of tax evaded, but is rather left to the discretion of the enforcement authority. And this is exactly the case under the existing Bulgarian legislation.

Despite the self-proliferation of understated invoices down the supply chain, this VAT evasion method is the least popular, the reason being that it is relatively less effective and riskier than the others. For example, if the sales value is understated, the amount of tax evaded is limited to the value added. Underreporting taxable sales based on the quantity of items sold has a relatively greater potential but its application is rather limited to items difficult to keep track of by physical count, such as raw materials and goods rapidly turning over.

The other VAT evasion method is the overstatement of taxable costs so as to claim a larger tax credit. The vehicle used is a fictitious or overstated supplies invoice. Of course, for this method to work, a supplier must be found which is ready to overstate its sales, and accordingly, pay more VAT and profits tax than actually payable. This position is usually filled by undertakings having excess cash of shady origin, which they are trying to inject into lawful circulation, or by phantom undertakings, which either vanish or go bankrupt without having paid their overstated VAT liability. The distinction between the two is rather academic. In practice, the two kinds of undertaking are often related and function together as links in the same chain. The sale of fake VAT invoices serves to launder criminal proceeds, including proceeds from VAT fraud, and the missing traders serve to minimise the laundry costs, which are equal to the VAT and profits tax payable on the fictitious sales. A phantom undertaking can also take part in an unlawful VAT refund scheme (see 4.3 below) and only sell fake invoices as an 'ancillary' operation, to top up its unlawful profits.

4.3. UNLAWFUL VAT REFUNDS

This second major kind of VAT fraud is not about tax evasion but about *unlawful VAT refunds*. Again, the distinction is rather loose, considering that any of the above evasion schemes may trigger unlawful refunds if the tax allegedly paid on supplier invoices exceeds the tax allegedly charged to customers.

The single VAT rate in Bulgaria narrows the opportunities for unlawful refunds in respect of domestic supplies. Things would change if different VAT rates were intro-

duced.³¹ For example, a reduced rate of 7 per cent would work the same for an offending producer as does the existing zero rate on exports. Indeed, it would only make things easier, dispensing with the need to sham exportation and present the goods for physical inspection by customs. In addition, a greater number of undertakings would have to come under more rigorous administrative control. (See more on this under 5.3).

Of course, a single VAT rate can also give rise to a refund in the event of a sufficiently wide time gap between costs and sales proceeds. This scenario is however of rather low probability in the normal course of business (excepting exports). Under the existing Bulgarian legislation, the VAT credit accrued must first be allowed from the tax liability during the following three months before a tax audit is performed and any remainder of the VAT credit is actually refunded.

In addition to unlawful VAT refunds, resulting from understated sales or overstated costs, there are some special schemes based on fictitious transactions, including: *fictitious exports*, the *missing-trader fraud*, and the *carousel fraud*; and their various hybrids and derivatives. In terms of mechanism and scale, these are closer to organ-

Real-Life Examples

The Stoiko Peev Case. This was one of the first high-profile cases of VAT fraud. In 1997, actor Stoiko Peïv, dealing in car spares, was accused of defrauding the Treasury of BGN 200,000 in taxes. The case did not reach the court until the end of 2004. (See *Sega* daily of 28 January 1998 and *Banker* weekly of 28 February 2004.)

VAT fraud in the grain trade. In 2003, GTD launched an investigation of several grain merchants in connection with VAT fraud estimated at BGN 3-4 million. The harvest that year being poor, grain prices rose, but prices quoted were artificially pushed even higher in order to claim larger VAT credits. The merchants also filed for VAT refunds in respect of grain exports but suspicions were that the grain never actually left the country. (See *168 Chasa* weekly of 26 September 2003.)

VAT fraud in respect of capital goods. By a series of transactions, *Techphase Trading* got VAT of more than BGN 400,000 refunded. The scheme was launched by *Agropolychim* of Stara Zagora purchasing a nitrogen-oxygen gas station from *Jor Daniel 98* for BGN 250,000. Subsequently, by several fictitious improvements, the asset's value was brought up to BGN 1,500,000. It was then sold at this price to another company, owned by the seller. By several fictitious invoices, the asset was improved again and sold for BGN 2,500,000 to *Techphase Trading*, an offshore company of unknown ownership registered in Cyprus, which claimed and got the VAT refund. (See *Kapital* weekly, 45/2004.)

The Case of Former Soccer Players. In the course of an operation against a major VAT-fraud network in December 2004, the National Anti-Organised Crime Service arrested former *Levski* player Vasil Dragolov and former *Beroï* goalkeeper Valentin Groudev. The scheme had defrauded the Treasury of some BGN 50 million. Another eight of the organisers were arrested in Bourgas, Sliven, Plovdiv, Stara Zagora, Yambol, and Haskovo. (See *Troud* daily of 10 December 2004.)

P. Kalchev's Network. A VAT refund scheme was uncovered in 2004, which had defrauded the Treasury of some BGN 15-16 million. Multiple fictitious sales transactions of imported goods had been used to pump up tax credit, which had then been refunded, dumping the tax liability on insolvent so-called 'traders'. The leader and mastermind P. Kalchev had secured the support of senior tax officials: the Head of a local tax office and a Head of Tax Audit. The investigation also established a link between P. Kalchev's network and the smuggling channel run by N. Metodiev-Pileto ['Birdie'] and a money-laundering operation. (See *Kapital* weekly, 40/2004, and *Pari* of 2 March 2005.)

Fictitious footwear exports. On 22 April 2004, GTD inspectors uncovered a network of tax officers who had unlawfully refunded BGN 11,650,000 worth of VAT in seven months. No fewer than 25 officers of several GTD units in Sofia had been involved. The scheme had used fictitious footwear exports to Cyprus. The investigation was launched after it had been established that the *Sredets* Local Tax Office in Sofia had, with unusual speed and no questions asked, allowed the refund of BGN 900,000 in respect of a single transaction. At the start of the chain was an undertaking that, on paper, bought *Kavaler* shoes for BGN 1,000,000 and resold them to the next undertaking in the chain for BGN 2,000,000. Thereafter, a third undertaking bought the same shoes for BGN 6,000,000 and went on to export them (always on paper) to Cyprus. (See *Paragraf* 22 of 25 December 2004.)

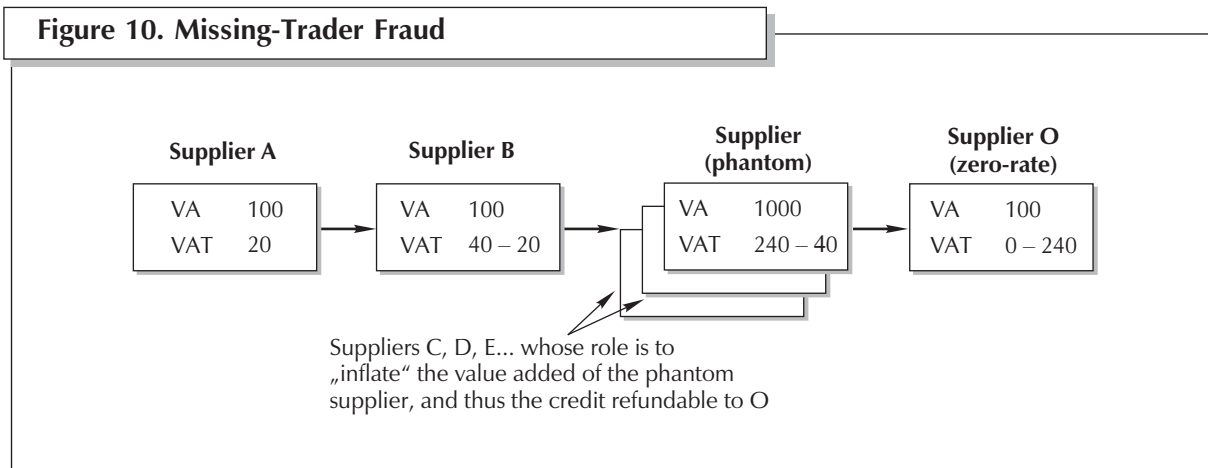
³¹ Among others, BCCI has demanded such changes, and BSP included a similar proposal in its 2005 Election Manifesto.

ised crime than to conventional tax evasion, the main difference being that, unlike conventional VAT evasion, they rely on transactions that never actually take place. This also means that, as no value is added throughout the process, the offenders do not stand to gain, nor does the Treasury stand to lose, unless the end result of the chain of transactions is a net cash flow from the Treasury to the offenders.

Fictitious exports: The producer-exporter performs the export transaction on paper, applying the zero VAT rate on exports and claiming tax credit on its costs, while actually selling the products on the domestic market without sales invoices. Usually, the scheme’s success depends on the co-operation of a customs officer, who processes the paperwork on the export transaction. A more moderate and realistic version of the scheme relies on overstating export quantities where they are difficult to establish accurately by the customs authorities.

Missing trader: In its various modifications, this type of fraud relies on a chain of fictitious transactions which concentrate a large portion of the VAT liability in a phantom undertaking, thereby making it uncollectible. However, for actual cash to flow out of the Treasury, the chain must end with a zero-rate supplier. The basic variety of the missing-trader fraud is illustrated in Figure 10: the supplier of greatest value added is a phantom (Supplier F); down the chain from it is a zero-rate supplier, such as a duty-free outlet or an exporter, which charges zero tax but is entitled to tax credit. If the transactions were genuine, and value had actually been added, the offenders’ gain (and the Treasury’s loss) would equal the VAT amount not paid by F, i.e., 200. However, the transactions being fictitious, the parties to them have no actual value added to hide, and the scheme would be meaningless to them if it did not end with some actual cash flowing out of the Treasury and into their pockets. This is where the zero-rate supplier comes into play, claiming tax credit in respect of fictitious costs and receiving a cash refund.

This basic variety can only serve as an illustration, rather than any practical purpose. Like most modern tax systems, the Bulgarian legislation has placed a number of obstacles to such schemes. The number-one of them is that, rather than being immediately refunded, the **VAT credit is deducted** from the tax liability during the following three reporting periods. Only after that, is any remainder of tax credit, not so de-



ducted, refunded within 45 days. This arrangement is designed to allow *bona fide* traders to deduct credit from real liabilities. Exporters are entitled to priority refund within 30 days. Secondly, actual cash is only **refunded after a tax audit**, and during the audit, the statutory time-limit is suspended. Finally, as a last preventive resort against offenders, the **principle of joint liability** prevents a rightful claimant of VAT credit from receiving it if any of its suppliers is non-compliant.

This triple security arrangement is somewhat relaxed to the benefit of compliant traders by the **VAT account**. Since 2002, businesses have been required to open special bank accounts which, since 2003, they have had to use exclusively for VAT receipts and payments. This is a way to segregate, almost physically, VAT moneys from the undertaking's other cash flows so as to ensure their safe passage to the Treasury. Any tax amount above BGN 1,000 must be paid to a VAT account.

The VAT account offers two advantages with regard to tax credit. Traders which pay to the VAT account not less than 80 per cent of the VAT charged to them, in respect of which they claim tax credit in the same month, including VAT on imports, are entitled to a refund within 45 days from filing a VAT return. Even if a tax audit is ordered (in the tax authority's discretion), this time-limit will not be suspended. Thus, under the VAT account arrangement, the requirement to deduct a tax credit from subsequent VAT liabilities, before any remainder can be refunded, is dropped, together with the requirement for a tax audit, and the waiting time for a refund is limited to 45 days, including the duration of any discretionary tax audit.

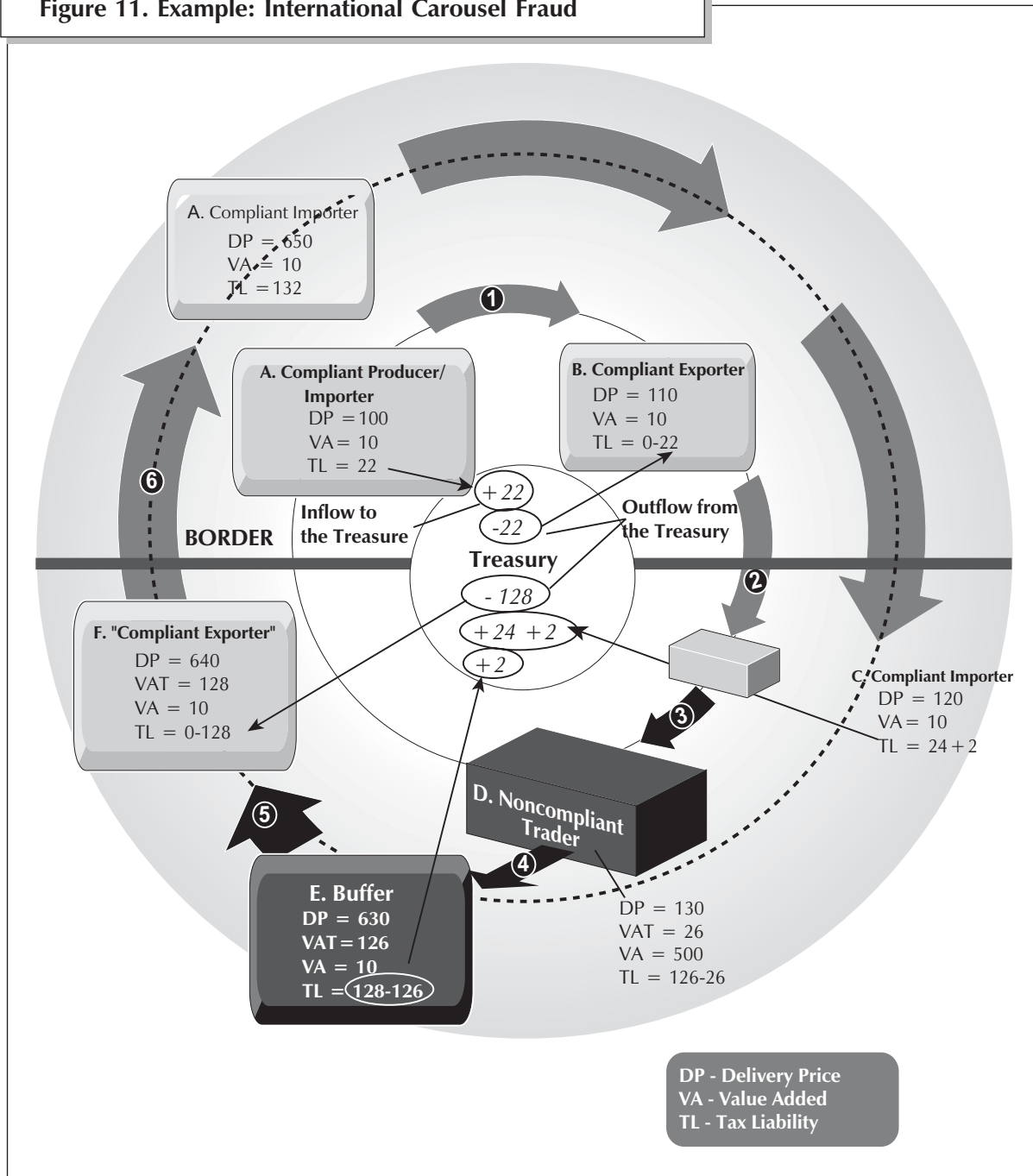
The second advantage has to do with the joint liability principle. The provisions of VATA Article 65(4), which prevent refunds if any trader in the supply chain is non-compliant, do not apply if the subject payment has been made to a VAT account by the end of the reporting period for which a tax credit has been claimed (VATA, article 65(8)).

The existing legal and administrative barriers to unlawful VAT refunds have caused the emergence of three varieties of the missing-trader fraud: 1. the insolvent-trader fraud; 2. the international carousel fraud; and 3. the VAT account drawdown fraud. In practice, a fraudulent scheme would combine elements of these three.

Insolvent-trader fraud: The same method is used as in the missing-trader fraud. The advantage here is that the VAT-liable undertaking actually exists but, having served its purpose, is transferred to indigent and half-literate individuals from whom the government cannot collect.

International carousel fraud: Tracing the chains of fraudulent transactions and thwarting the missing or insolvent-trader schemes becomes a much more difficult and slower process across the border between national jurisdictions. Tax credit is claimed by the exporters and the tax liabilities accrue to undertakings along the chain which disappear without trace. The international carousel fraud relies on multiple cross-border transactions. This, on the one hand, makes tracing and counteraction more difficult, while on the other, it multiplies the missing-trader effect. The carousel fraud is the greatest challenge to revenue administrations in the EU. It has been aggravated by the absence of customs control at the Union's internal borders. Figure 11 provides an illustration which, for simplicity, assumes the same VAT rate of 20 per cent on each side of the border.

Figure 11. Example: International Carousel Fraud



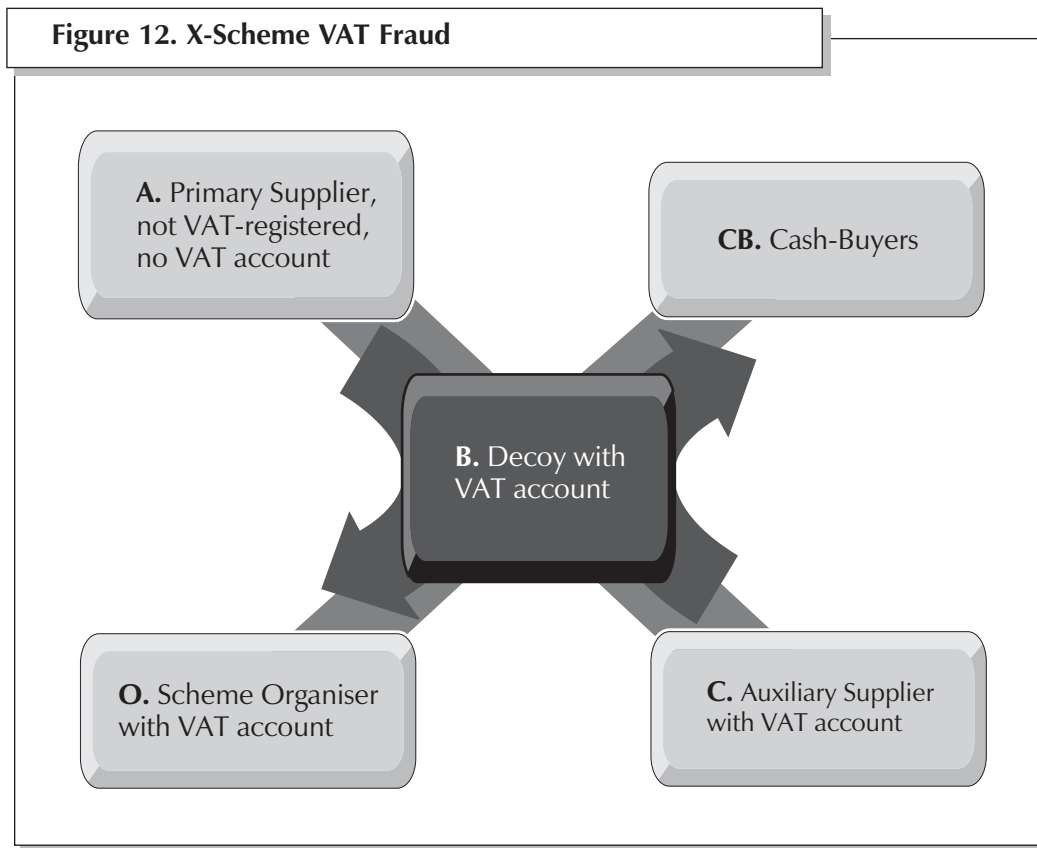
The first round (unbroken lines) results in a refund of 100; as the carousel goes round a second time (dotted lines), the effect doubles. The scheme's capacity is considerable, especially if fictitious traders are involved on both sides of the border.

4.4. VAT-ACCOUNT FRAUD

The VAT account arrangement is an attempt at providing relief to compliant taxpayers caught in the trap of joint liability. Bulgaria has adopted an extreme ver-

sion of the joint liability principle, whereby a trader is denied tax credit if there is—up the supply chain from it—an unregistered or non-compliant VAT payer, without the tax authority having to prove a link between the trader claiming the tax credit and the non-compliant trader. As this, understandably, came under criticism from the business community, the VAT account arrangement was introduced as an alternative to joint liability.

However, according to a GTD report to the Parliamentary Committee of Inquiry into VAT Fraud of the autumn of 2004, the VAT account arrangement has offered offenders new ways of evading the tax. In the administration’s jargon, this is the so called ‘X-scheme of VAT fraud’ or, essentially, a method of drawing down of the VAT account. Taking advantage of the joint liability relief under the arrangement, the scheme’s organiser claims tax credit despite the existence, up the chain, of a non-compliant payer and, simultaneously, draws down that non-compliant payer’s VAT account, which, in theory, is there to guarantee the Treasury’s receivable. Figure 12 illustrates the basic scenario.



The initial (primary) supply comes from a non-VAT-registered trader (A) to a VAT-registered purchaser/supplier (B) at a VAT-exempt price. The latter acts as a decoy: its task is to ensure the right to VAT refund to the organiser (O), as O pays the tax into B’s VAT account. However B’s tax liability will not be collectible—when it is established, B will have no balance left on its VAT account. B’s account is drawn down by purchases from another supplier (C) and the transfer of the VAT on them to its VAT account. On paper, B receives fast moving consumer goods which, again on paper, it immediately turns around and sells to cash-buyers (CB). These are either

end consumers or non-VAT-registered traders or VAT-registered traders whose tax liability is below BGN 1,000. The idea is to avoid payment of the VAT charged on these sales into *B*'s VAT account. In practice, *B* never receives delivery of the goods in order to avoid the risk of distraint in respect of its primary tax liability. What really happens is: *C* delivers directly to the *CBs* and remits the VAT collected from them to the investor in the scheme *O*. As the VAT on the wholesale supply of rapidly marketable goods stays in *C*'s VAT account, it is not lost by the Treasury. To make sure that it is not lost by the scheme organiser either, it is collected from the *CBs*. For all this to happen, however, there must be some real trading, albeit unregistered, going on. The auxiliary supplier *C* is most likely an importer. There are two reasons for this. First, *C* cannot evade the tax anyway, and if it must be done by the book, let it be in importation, where the tax is collected upon the goods' entry and where not doing it by the book is most expensive. Second, the auxiliary supply must be in quantities commensurate with the scale of the fraud and unconstrained by the capacity of domestic suppliers, who, on top of that, are usually well-known.

Table 10. Example: X-Scheme VAT Fraud

(a) Non-VAT-Registered Supplier <i>A</i> delivers goods worth 1,000 to Intermediary/Decoy <i>B</i> . The supply is VAT-exempt.	
(b) Supplier <i>B</i> adds value of 100 and resells the goods to Scheme Organiser <i>O</i> at 1,320 gross, of which 220 goes to <i>B</i> 's VAT account. Thereby, <i>O</i> is entitled to claim a tax credit of 220.	
(c) <i>B</i> draws down its VAT account by transferring 220 to <i>C</i> 's VAT account in respect of goods (rapidly marketable) purchased from it at 1,100 net.	
(d) The goods purchased from <i>C</i> are rapidly placed on the cash market, the VAT on them going straight into the organisers' pockets.	
Evasion Scenario (220 of budget revenue lost)	Unlawful Refund Scenario (440 + of budget revenue lost)
(e) Scheme Organiser <i>O</i> sells the primary goods on the domestic market, charging VAT of 220, which it does not pay as it is exactly offset by its tax credit. The net result is that, being owed VAT of 440 (220 on the primary supply and as much on the auxiliary supply), the Treasury only gets 220—from <i>C</i> 's VAT account in respect of the auxiliary supply.	(e) Scheme Organiser <i>O</i> exports the primary goods, charges the zero VAT rate on the export transaction, and receives a cash refund of 220 in respect of its tax credit. The net result is that, being owed VAT of 440 (220 on the primary supply and as much on the auxiliary supply), the Treasury gets naught. The 220 it does receive from <i>C</i> 's VAT account in respect of the auxiliary supply is exactly offset by the cash refund in respect of <i>O</i> 's exports. Or— (f) Scheme Organiser <i>O</i> exports the primary goods on paper, charges the zero VAT rate on the export transaction, and receives a cash refund of 220 in respect of its tax credit, while in reality, it adds value of, say, 500 and sells the goods domestically for unregistered cash. The net result is that, being owed VAT of 540 (a total of 320 on the two primary supplies and 220 on the auxiliary supply), the Treasury gets naught. The 220 it does receive from <i>C</i> 's VAT account in respect of the auxiliary supply is exactly offset by the cash refund in respect of <i>O</i> 's exports. Or— (g) The same loss effect of 540 is produced if Scheme Organiser <i>O</i> has a genuine foreign buyer ready to accept the goods at an invoice price lower than the actual one (which a foreign buyer might have the incentive to, considering that based on the destination rule it would save VAT on imports). In this case, Scheme Organiser <i>O</i> avoids the costs and risks of selling the primary goods on the domestic unregistered-cash market.

In summary then, the VAT payable on the primary supply is restored to the scheme organiser, having been simultaneously withdrawn from its supplier's VAT account. In the meantime, it has also been used to legalise the auxiliary sales. Therefore, in its basic variety, the X-scheme is a method of VAT evasion, rather than unlawful refund. But it is possible to double, at least, its effect if the organiser (*O*), instead of selling the primary goods on the domestic market, and reporting the sales, exports them fictitiously and sells them domestically for unregistered cash, or else, exports them genuinely but at a lower reported value. In addition, the basic chain could be made much longer and more complicated, with the involvement of a number of witting or unwitting intermediaries, so as to make it difficult to trace and break. (See Table 10 for a numeric example of these two scenarios.)

The early evaluation of the VAT-account experience shows that, on the one hand, it has increased business's compliance costs by effectively freezing some of its cash assets in a sort of escrow account long before the VAT liability has become payable. On the other hand, the VAT account arrangement has failed to offset these higher compliance costs by faster unconditional VAT refunds. The fact that the classical missing-trader scheme is still feasible under the arrangement means that tax audits for the purposes of VAT refunds are not an exception and, indeed, often result in denial of refund despite payments made to a VAT account. On balance, while it has not put an end to fraud, the VAT account has only given the administration greater discretion to decide when to do a tax audit and when not to—when to recognise tax credit and when to deny it.

