VAT Fraud in Europe

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Tax evasion and financial criminality in Europe:

New Forms of Fraud, New Social Struggles

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VAT Fraud in Europe

- VAT: History of the Value Added Tax
- VAT fraud in Europe: past, present and future
- Typologies of VAT fraud
- VAT bestsellers: From gold to VoIP
- VAT fraud: a multi-layer crime structure
- Organized crime and VAT fraud
- Outlook in the VAT fraud: EU and Eurasian Economic Union
Background

- Academic: Physics, Mathematics and Economics
- Professional: 10 years of experience in Investment banking and advisory
- Financial crime: Brokerage experience on a market heavily touched by VAT fraud
- Research: Crime investigation through statistical non-invasive methods (statistics forensics, economic impact studies)

Relevant publications:

- **M. Frunza**, Social media and financial crime, IWCEE, 2014
- **M. Frunza**, Impact of EURIBOR manipulation on real economy, WP, 2014
- **M. Frunza**, Behaviour of Rating Agencies during the Euro crisis, WP, GPSD, 2014
VAT: History of the Value Added Tax

- VAT as a concept aroused originally in Germany during the post–World War I period as a replacement to the country's direct sales tax.
- VAT was developed in France, fathered in the 50’s by the then director of the French tax authority Maurice Lauré.
- The VAT (TVA, Taxe sur la valeur ajoutée) was introduced in France through a law on 10th of April 1954.
- The efforts for unifying taxation across the new rising “Common Market”, imposed the VAT as foundation of the fiscal policy inside the economic space of the European Union.
- For instance in Germany VAT (MwSt./USt. Mehrwertsteuer/Umsatzsteuer) is applied since 1968 under a federal law.
- In Great Britain VAT was introduced in 1973 by Lord Barber, the chancellor of Sir Edward Heath, the Tory Prime Minister at that moment.
- Thus Value Added Tax (НДС, налог на добавленную стоимость) was introduced into Russia in 1992.
• The article 3 from the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax states:

1. By way of derogation from Article 2(1)(b)(i), the following transactions shall not be subject to VAT:

– the **intra-Community acquisition** of goods by a taxable person or a non-taxable legal person, where the supply of such goods within the territory of the Member State of acquisition would be exempt pursuant to Articles 148 and 151;

– the **intra-Community acquisition** of goods, other than those referred to in point (a) and Article 4, and other than new means of transport or products subject to excise duty, by a taxable person for the purposes of his agricultural, forestry or fisheries business subject to the common flat-rate scheme for farmers, or by a taxable person who carries out only supplies of goods or services in respect of which VAT is not deductible, or by a non-taxable legal person.
### VAT: History of the Value Added Tax

<table>
<thead>
<tr>
<th>Country</th>
<th>Super Reduced Rate (%)</th>
<th>Reduced Rate (%)</th>
<th>Standard Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>-</td>
<td>6/12</td>
<td>21</td>
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<tr>
<td>Bulgaria</td>
<td>-</td>
<td>9</td>
<td>20</td>
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<td>Czech Republic</td>
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<td>14</td>
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<td>Denmark</td>
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<tr>
<td>Germany</td>
<td>-</td>
<td>7</td>
<td>19</td>
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<tr>
<td>Estonia</td>
<td>-</td>
<td>9</td>
<td>20</td>
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<tr>
<td>Greece</td>
<td>-</td>
<td>6,5/13</td>
<td>23</td>
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<tr>
<td>Spain</td>
<td>4</td>
<td>8</td>
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<td>France</td>
<td>2,1</td>
<td>5,5/7</td>
<td>19,6</td>
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<tr>
<td>Ireland</td>
<td>4,8</td>
<td>9/13,5</td>
<td>23</td>
</tr>
<tr>
<td>Italy</td>
<td>4</td>
<td>10</td>
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<tr>
<td>Cyprus</td>
<td>-</td>
<td>5,0/8</td>
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<td>Latvia</td>
<td>-</td>
<td>12</td>
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<td>Luxembourg</td>
<td>3</td>
<td>6/12</td>
<td>15</td>
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<tr>
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<td>-</td>
<td>5/18</td>
<td>27</td>
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<td>Netherlands</td>
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<td>23</td>
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<td>Sweden</td>
<td>-</td>
<td>6,0/12</td>
<td>25</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-</td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
</table>

*Schwarzthal Kapital*
VAT Fraud mechanism

- Offshore banks
  - Money transfers
  - Goods transfers
- Broker 2
- Missing trader
  - NO VAT
- Supplier of goods/services
- Initial source of liquidity
  - Initial source of goods/services
- Client paying VAT
  - + VAT
- Country Treasury
  - Country A
- Country B
  - Schwarzthal Kapital
VAT: Carousel fraud focus

Offshore banks

Initial capital seed

Broker 3 (Exchange)

Broker 2

Country A

Broker 1

Country B

Broker 4

Supplier of goods/services

Initial source of liquidity

Initial source of goods/services

VT: Carousel fraud focus

Money transfers
Goods transfers
VAT: A multi-layer crime (Estimates in M€)

- Initial investment: 100
- Gross VAT amount after 10 rounds: 499
- Brokerage fees: -124
- Corporate fees: -25
- Cost of market risk: -12
- Net extorted VAT: 338

_Schwarzthal Kapital_
### VAT bestsellers: From gold to VoIP

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying</th>
<th>Pocketed VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-1996</td>
<td>Gold</td>
<td>20 -50 M€</td>
</tr>
<tr>
<td>1993-2000</td>
<td>Clothes</td>
<td>100-150 M€</td>
</tr>
<tr>
<td>2003-2006</td>
<td>Mobile phones</td>
<td>2 000-3 000 M€</td>
</tr>
<tr>
<td>2007-2010</td>
<td>Carbon emissions</td>
<td>8 000-10 000 M€</td>
</tr>
<tr>
<td>2002-2006</td>
<td>Telecom</td>
<td>5 000- 7 000 M€</td>
</tr>
<tr>
<td>2005-2010</td>
<td>VoIP</td>
<td>4 000- 8 000 M€</td>
</tr>
<tr>
<td>2005-2012</td>
<td>Cars</td>
<td>1 000-2 000 M€</td>
</tr>
<tr>
<td>2005-2012</td>
<td>Foods</td>
<td>2 000 -5 000 M€</td>
</tr>
</tbody>
</table>

Source: Schwarzthal Kapital
VAT fraud: Past present and future

VAT fraud location

Financial connection

Schwarzthal Kapital
VAT fraud: Organized crime

- Need for seed financing for the carousel mechanism
- Need for debt recovery taskforce (“shylocks”)
  - ‘Ndrangheta’: VoIP - Silvio Scaglia
  - Tambovskaya bratva/Bulgaria: Energy
  - Georgian groups (“vory v zakone mandarin”): Spain operations - cars, carbon, etc…
  - Israeli groups: EU operations - carbon, clothes, mobile phones
  - Romanian gangs: Ferrous and non-ferrous metals
  - Asian gangs: UK operations – carbon, electronics, metals…
VAT fraud opportunities are enormous through various underlings (Virtual products, Football transfers, Betting…)

- Virtual economy can facilitate the fraud (Bitcoin)
- Geographical spread in new economic alliances (Eurasian Union)
- New perspective on money laundry: “Laundering non–cash proceeding”
- Currently the floor estimate of EU VAT related losses is 100 B€ per year (1.5% of total EU outstanding debt)
Schwarzthal Kapital
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