



European parliament, TAX3 - Special committee on financial crimes,  
tax evasion and tax avoidance

Hearing on “VAT fraud” June 28<sup>th</sup> 11:00 - 13:00.

Initial statement

Eurofisc chair, Ms Alma Olofsdottir

Good morning

Thank you inviting me to this hearing to discuss Cross border VAT fraud in the European Union (EU)

Initially, I will demonstrate in my presentation the role of Eurofisc in combatting VAT fraud, and especially Missing Trader Intra Community carousel fraud, also called MTIC fraud.

The VAT system in the European Union (EU) is vulnerable to fraud, and in particular MTIC fraud. VAT fraud has continually developed during the past decades and has become a major problem in the EU. The fraud schemes are getting increasingly complex and include various markets. It is difficult to estimate the exact amount of VAT losses in the EU caused by fraud, but cross border VAT fraud is estimated to cause approximately 50 billion euros in VAT losses every year. It is therefore crucial that VAT fraud is prevented, detected and combated as quickly as possible. MTIC carousel fraud usually involves companies located in several member states in the fraudulent trading schemes, which calls for a strong and efficient international cooperation between the tax administrations.

The EUROFISC network was established by the EU Council Regulation 904/2010 to enhance the administrative cooperation between the member states in combating organised VAT fraud, and especially MTIC carousel fraud. Eurofisc is a network for the swift exchange of targeted information between the member states. All the 28 EU member states participate in the network, but they can choose in which working fields they will participate and also decide to terminate their participation. When joining a working field, the member states are obliged to participate actively as agreed by the participants in the working field. In practice, this includes uploading and downloading data in/from the Eurofisc network and also provide feedback on the information received. Each member state has designated at least one Eurofisc liaison official, who is a VAT fraud expert, as competent official to exchange information in the

working fields. Their task is also to share experiences related to different types of fraud, national risk analysis, risk areas and other relevant information related to VAT fraud. The information shared in the network is only exchanged between Eurofisc liaison officials. Among the Eurofisc liaison officials, each member state appoints one Eurofisc national Eurofisc liaison official who will express the vote of his own member state as well as attend Eurofisc group meetings.

Currently the network is composed of the Eurofisc Group and working fields. The role of Eurofisc group, among other tasks, is to decide on the creation and termination of working fields (WF) and evaluate the results of Eurofisc. The Chair of Eurofisc is elected among the National Liaison officials participating in Eurofisc group. The number of WF can vary depending on the need, and currently there are six WF in Eurofisc. Each WF has a coordinator, chosen from the participating Eurofisc national liaison officials. WF1 - WF4 were established in 2010 for addressing specific VAT fraud schemes known to cause serious damage to the VAT revenue in the EU.

WF1: operates in the field of MTIC fraud including all goods and services.

WF2: deals with fraud in relation to new means of transport (cars, boats and airplanes)

WF3: focus on the abuse of the Customs procedure 42.00.

Representatives from both tax administrations and Customs participate in WF2 and WF3.

WF4: acts as an observatory and collects intelligence about new trends and developments in fraud patterns as well as techniques and approaches in the fight against VAT fraud.

Due to the globalisation and new developed technology the tax administrations are constantly facing new challenges collecting VAT on cross border trade. WF5 was established in 2016 to exchange information and knowledge on cross border eCommerce which is rapidly growing in the world and has become a major impact in the economy. The development in new business models, the globalization, new trading platforms and also payment platforms poses challenges on tax administration to monitor and identify new risk patterns and fraud models in the field of eCommerce. There is a serious risk for VAT avoidance and fraud in this sector.

WF6 was established in 2017 for the implementation of TNA (Transaction Network Analysis) in Eurofisc. The aim of the TNA is to support the operation of Eurofisc and to make the network more efficient. TNA will automate the information exchange in Eurofisc and is consequently expected to improve the member states ability to send early warnings and provide feedback, and the quality, reliability and security of information shared. The TNA will visualise the fraudulent carousel networks and is expected to speed up the detection. TNA is scheduled to be fully operational in WF6 before Q2 2019

The Eurofisc cooperation has without doubt contributed to reduce the VAT losses in the EU, but despite the various efforts in the member states to combat VAT fraud, and close international cooperation between the tax administrations, the problem is still extensive due to the complexity and speed of the fraud and the involvement of new markets. Apart from massive VAT losses in the member states, organised VAT fraud can also affect the credibility of the market and contribute to unfair competition. The EU emission allowances market was heavily effected by carousel fraud in 2009 – 2010, causing approx. 5 billion in VAT losses in only 18 months and thereafter the fraudsters moved into the Electricity and Gas market. Other markets such as electronics, metals and the telecom market have also been deeply affected. Cross border VAT fraud is not only limited to Intra Community transactions, but often

involves goods arriving into the EU from non-EU countries, especially under Customs Procedure 4200. Also direct import/export transactions have been connected to carousel fraud. This calls for enhanced cooperation with Customs, non-EU countries and market players/business sector

Many MS have introduced sector specific reverse charge procedures over the last years on goods and services frequently involved in MTIC fraud. However, there are still no signs that the scale of VAT losses in the EU is diminishing. Although a reverse charge is beneficial to the member states to stop VAT fraud in a specific sector in their country, it can lead to shifting the fraud to other member states or into new markets.

Usually the tax administration is responsible for the assessment and collection of VAT and plays a central role in preventing and detecting tax fraud. The information the tax administrations exchange through the Eurofisc network is confidential, as provided for in Article 55 in the Council Regulation 904/2010. It is stated that the information exchanged shall be covered by the obligation of official secrecy and enjoy the protection extended to similar information under the national law of the member state which received it. It is also specified that the information exchanged can be used in a criminal investigation. However, the possibility to share information received through this channel with Law Enforcement agencies on national level, before criminal investigation, can vary between the member states.

The definitions of organised crime and criminal organisations is found in various EU documents. MTIC carousel fraud has always to be regarded as an offence committed by organised crime groups. According to Europol, it is estimated that 40-60 billion euro of the annual VAT revenue losses of member states are caused by organised crime groups, and 2 % of those groups are behind 80 % of the MTIC fraud. MTIC carousel fraud can also be associated with other serious crime areas such terrorism financing and money laundering.

By bringing all the agencies and network responsible for combatting MTIC fraud closer together on national and EU level, there are greater opportunities to more efficiently stop MTIC carousel VAT fraud in the EU and minimise the tax losses and prosecute the criminal groups.

Thank you.