



## VAT Fraud 101: A guide for industry stakeholders

VAT fraud in the metals recycling sector is enabled by the opaque nature of the metals recycling supply chain, which allows a fraudulent business to sell goods to other businesses who do not have sight of the vendor's trading connections.

There are two types of VAT Fraud found in the UK metals recycling supply chain.

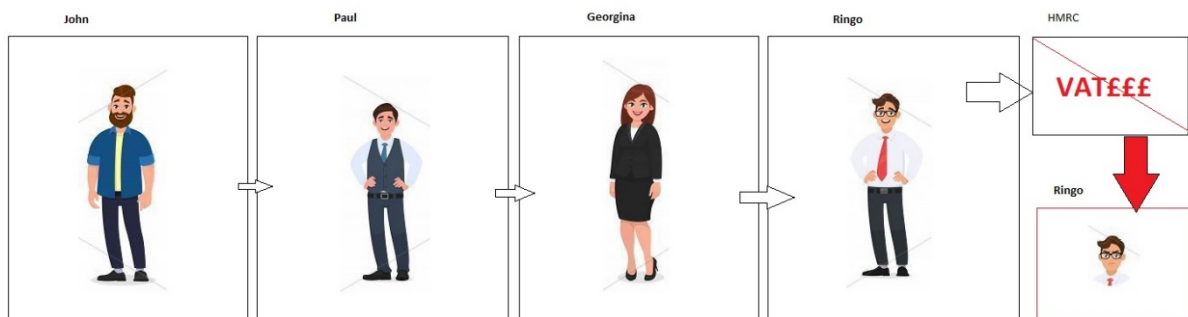
1. Missing trader fraud
2. Missing Trader Intra-Community Fraud (MTIC) also known as 'carousel' fraud

### Missing trader fraud

The most simplistic of this type of fraud, missing trader fraud occurs when one operator in the supply chain goes 'missing' having not paid the VAT owed HMRC. When the fraud is discovered, HM Revenue and Customs (HMRC) looks up the supply chain and withholds VAT payments whilst they investigate the case. HMRC's case is that all those in the supply chain 'should have known' that the missing trader intended to defraud HMRC. This position does not, however, reflect the fact that the metals recycling supply chain is necessarily opaque.

*For example:*

John sells metal to Paul. Paul sells the metal to Georgina, who does know John. Georgina sells the metal to Ringo, who knows neither Paul nor John. Paul goes missing without paying his VAT bill. Instead of going to all those in the supply chain, HMRC only targets Ringo, the biggest operator in the chain, withholding his VAT due under the guise that "Ringo should have known that there was a fraudulent trader in the supply chain."



### MTIC/Carousel Fraud

MTIC fraud is committed by importing goods that are 'zero rated' for VAT purposes from the European Union (EU). The goods are then sold on to another company at a VAT inclusive purchase price. The supplier then fails to pay the output tax on to HMRC and the company goes 'missing'.

In some instances, the goods are sold through more than one business, some of which may be unaware they are taking part in a fraud. The goods are finally sold outside the UK free from VAT and

the last business in the chain claims a VAT repayment from HMRC that crystallises the loss at the beginning of the chain. In some cases, the goods are not even exported.

For example:

Hugo, who is based in Belgium, sells £1,000 of copper to his friend Adam in the UK with no VAT on the bill because scrap is zero rated on sales between the UK and Belgium. Adam sells the copper to his friend Alex, and charges 20% VAT so the bill is now £1,200. Adam knowingly commits fraud by not paying the VAT. Alex, sells the copper to Albert, once again charging VAT so the bill is now £1,440. She also fails to pay the VAT thus also committing fraud. Albert exports the copper and reclaims the VAT paid. Note: in many instances, the metal may only move on paper.

Contra-trading fraud is another form of carousel fraud whereby the operator evades detection by using two supply chains of traded scrap where one is legitimate (visible) and the other is not. This enables an accounting fraud where the input VAT from one chain and output VAT from the other cancel each other out thus concealing the VAT payment default. As with many types of VAT fraud, operators further down the supply chain will have no knowledge of this fraud.

### **Reverse charge VAT**

The EU created the concept of Reverse Charging VAT in order to simplify trade within the Single Market. Reverse charge VAT moves the responsibility for the reporting of a VAT transaction from the seller to the buyer of the goods.

Under reverse charge VAT, the recipient of the goods reports both their purchase (input VAT) and the supplier's sale (output VAT) in their VAT return to HMRC. These two declarations offset each other from a cash payment point of view, but the authorities have full visibility of the transactions.

Alongside Malta, the UK is the only country not to use the reverse-charge VAT mechanism. This makes the UK attractive to those looking to commit VAT fraud, especially if they engineer the supply chain so that they can levy VAT on the import, claim back the VAT on export and disappear with both.

This disproportionately affects the UK metals recycling supply chain by putting them at risk of unknowingly and unwillingly being part of VAT fraud simply because they have no sight of their supply chain for business survival reasons.

### **Joint and several liability: companies are at risk!**

Joint and several liability in VAT fraud means that multiple companies can be held liable for the same fraudulent act and be responsible for all restitution required, in this case the missing VAT payment due to HMRC.

It is essential for companies to understand that they may be held jointly and severally liable for unpaid VAT if HMRC considers they 'knew or had reasonable grounds to suspect' the VAT would go unpaid in their supply chain. Companies will be considered to have 'reasonable grounds to suspect' if the evidence demonstrates they 'knew' or 'should have known' the transactions were connected with VAT fraud.