



**EMBARGO UNTIL
27 SEPTEMBER 2012**

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FIOD figures reveal decline in size of carousel fraud

Boost to combating VAT fraud

Since 2009, the Dutch Tax and Customs Administration has been using more personnel to combat VAT fraud in cross-border transactions in the European Union (also known as intra-Community VAT fraud or carousel fraud). Figures released by the Fiscal Information and Investigation Service (FIOD) on fraud cases dealt with indicate that there has been a decline in the size of carousel fraud: from an average of €131 million a year in the period 2003-2007 to an average of €39 million a year in 2008-2011. The Administration's strategy is to detect this form of fraud at an early stage, thus breaking the carousel of transactions and minimising the losses to the public purse. The Court of Audit recommends that the current firm strategy on combating fraud be continued.

The Tax and Customs Administration has used an additional 38 FTEs to combat carousel fraud, bringing the total to 88 FTEs. It has also taken measures to improve the prevention and detection of carousel fraud. These findings were published on 27 September 2012 in an impact assessment of an audit of *Intra-Community VAT fraud* carried out by the Court of Audit in 2009. At the time, the Court of Audit had recommended that greater priority be given to combating this type of fraud. The Court of Audit carried out the audit and the impact assessment in collaboration with the Belgium's *Rekenhof* and Germany's *Bundesrechnungshof*. In the *Joint follow-up report on Intra-Community VAT fraud*, the three audit institutions compare the follow-up to the recommendations they had made in 2009.

Remaining problems

Despite the improvements, there are still problems in the strategy to combat carousel fraud. It is difficult, for example, for the Tax and Customs Administration to track changes in business ownership. This frustrates measures to combat the misuse of existing VAT numbers by the new owners of a business. Accelerating the submission of statements of intra-Community transactions since 2009 has improved early detection but it has not brought a solution to the problems with administrative differences any closer. Furthermore, requests for information between the tax authorities are not always dealt with efficiently. The Tax and Customs Administration has still not evaluated the impact of the international exchange of information on the detection of fraud. Finally, further improvements can still be made in the provision of information on the approach to and size of carousel fraud.

PRESS RELEASE



Permanent attention required

The Court of Audit recommends that permanent attention be paid to carousel fraud and to intensive cooperation and the exchange of information within the EU in order to prevent an increase in the size of the fraud. There is a continuous threat that new carousels will be established within the current VAT system.

In intra-Community VAT fraud, or carousel fraud, fraudsters profit from the difference between the high standard rate of VAT in the member states and the zero rate for intra-Community transactions. Since 1 January 2012, the standard rate of VAT has been 19% in the Netherlands and Germany and 21% in Belgium. The standard rate in the Netherlands will also be 21% as from 1 October 2012.

In a simple form of carousel fraud, trader A sells zero-rated goods to trader B in another EU member state. Trader B then sells the goods in its home country to customer C. Trader B does not remit the VAT it charges to C. C sells the goods on and reclaims the VAT it charges. The goods can then be sold back to the source country at the zero rate so that the cycle can be repeated, hence the name carousel fraud. Trader B remains out of sight of the authorities and is known as a missing trader.

Response of the State Secretary for Finance

The State Secretary for Finance responded favourably to the report and wrote that he would maintain the firm approach to fraud. In its afterword, the Court of Audit recommended that the state secretary investigate the effectiveness of the international exchange of information. The investigation should not be confined to an analysis of the feedback from other EU member states. It should also consider the value of the information the Tax and Customs Administration receives on request from other member states.

NOTE FOR THE EDITOR Contact press officer Joost Aerts, +31 (0)70 342 41 89 / +31 (0)6 20 24 87 03, for more information. The report on the Netherlands and the joint Dutch/Belgian/German report can be accessed at www.rekenkamer.nl and ordered from +31 (0)70 342 44 00.