The EU SAI’s Working group on VAT: activities and results

Mr Chairman, Dear Colleagues, Ladies and gentlemen,

Signor Presidente, Onorevoli colleghi, Signore e Signori,

In nome della Corte dei Conti del Belgio desidero congratularmi con la Corte dei Conti Italiana per l’iniziativa di organizzazione di questo Seminario. Sono molto onorato di rivolgermi a voi “nella città più bella del mondo”, sul tema importante della frode IVA.

Since the launch of the current VAT system in 1993, the SAIs in the European Union have been aware that the system provides opportunities for intra-Community fraud. This was an important reason for establishing a VAT Working Group of EU SAIs. The Belgian Court of Audit is a member of this Working Group.

Since 2004 the VAT Working Group focuses mainly on two objectives: firstly the existing legal possibilities of cooperation among the national SAIs, on the one hand, and, on the other hand, between national SAIs and the European institutions; and secondly the existence of a sufficient legal basis in order to make the effective implementation of an external audit at the tax administrations possible in the field of the fight against tax fraud. Within the scope of these objectives, special attention is

1 Member of the Belgian Court of Audit
paid to the harmonization of the legislation and to the harmonization of the fight against VAT fraud.

The VAT Working Group has two Core Groups. The Belgian Court of Audit is represented in Core Group 2 ("Anti Tax Fraud Strategy"). In every meeting of Core Group 2, the participating SAIs report about the evolution and harmonization of the legislation in their countries, their audit experiences and new trends in VAT fraud.

The Core Groups work on specific topics. They report to the VAT Working Group, who will report afterwards to the meeting of the Liaison Officers. The latter report to the Contact-Committee of Presidents of the European SAIs.

Giving all the topics in detail, would lead us too far, therefore I will only stipulate three of them hereafter.

The first topic the VAT Working group has been reflecting on, is the review of methods of estimating revenue losses as a consequence of VAT fraud (i.e. VAT gap estimation). The calculation of the VAT gap is technically a very difficult matter. It can be done by using two methods: a top-down model or a bottom-up model.

The top-down model is based on global figures that are rougher and more complicated, but it can be used to calculate the entire VAT Gap, and its results are more comparable across the different countries. This methodology was used in the so-called Reckon report (i.e. a study of 2009 to quantify and analyse the VAT gap in the EU Member States, recently updated in 2012) that was carried out at the request of the European Commission.

The bottom-up model is specifically used for carrousel fraud. It uses pretty accurate figures on this subject, which are extrapolated. However, it can’t be applied to calculate the entire VAT Gap. Belgium has developed such a bottom-up model that has been adopted by many countries and is also used by Eurofisc (i.e. a network for the
swift exchange of targeted information, used in the fight against VAT fraud, among EU member states). Based on this model it was calculated that the VAT carousel fraud in Belgium has fallen back, in ten years’ time, from more than 1 billion euros to about 20 million euros.

A second topic, the VAT Working Group has been dealing with, includes the registration and deregistration of VAT-numbers. The purpose of this topic is to make proposals in order to achieve harmonised procedures for the registration and deregistration of VAT numbers. Recently a questionnaire has been sent out by the Belgian Court of Audit to the members of the VAT Working Group. Based on their answers an overview of the procedures for the registration of VAT numbers by the respective countries will be made by the Belgian Court of Audit, in cooperation with the German Bundesrechnungshof. In the first half of 2015, the Belgian Court of Audit will report its findings and proposals in this regard to the working group.

Finally, a third topic that has been occupying the VAT Working Group, concerns the issues around the reverse-charge mechanism. The reversing of the VAT obligations is an exception to the normal VAT rules that, for certain goods and for a certain period of time, can be an efficient VAT anti-fraud measure.

Besides dealing with specific topics, the VAT Working Group is also a excellent forum to engage in bilateral and multilateral cooperation in the area of fight against intra-Community VAT fraud. In this context the SAIs from the Netherlands, Germany and Belgium decided to conduct an audit on intra-Community VAT fraud. In March 2009 they published their audit report about intra-Community VAT fraud (hereafter referred to as the 2009 joint report).

In 2011 the three participating SAIs decided to conduct a follow-up audit to this 2009 trilateral audit. The basic objective was to evaluate what action had been taken on the basis of the recommendations in the original report.
This trilateral follow-up audit resulted in national follow-up reports for each of the three participating countries and in a joint follow-up report presenting the developments since the original joint report.

The observations on this follow-up to the 2009 joint report indicate that in some areas progress has been made on tackling intra-Community VAT-fraud. However in other areas the situation has not changed significantly since the 2009 joint report.

Progress is visible for example in the tax authorities’ approach to inactive traders with valid VAT identification numbers. Investigations of these cases start earlier and VAT numbers are withdrawn if necessary. Tax authorities also explore ways of improving risk analysis and keeping track of fraud patterns. The speeding up of VIES processing (i.e. VAT Information Exchange System), pursuant to EU legislation, helps to detect fraud signals earlier and consequently to stop losses earlier. The establishment of Eurofisc is also considered to be a positive development, because it promotes cooperation among fraud units in all EU Member States.

There are also areas where we do not observe significant positive developments. For example, more attention still needs to be paid to preventing abuse of existing VAT numbers by transferring company ownership. In many cases fraudsters use these transfers as an alternative to establishing a new company. Since 2009, EU standards for registration and deregistration have not been changed to give tax authorities more scope to act in cases where fraud (or intended fraud) is suspected.

Although new EU rules introduced monthly recapitulative statements, this did not reduce the problems with matching VIES data. An important precondition – that ‘transactions should be declared for the same tax period by both the supplier and the purchaser or the customer’ – has not been fulfilled. This is one of the obstacles to the tax authorities’ improving their matching procedures. Harmonization of chargeability rules is still an issue.
The information available to the tax authorities indicates a reduction in the losses due to carousel fraud in Belgium and in the Netherlands. This is partly due to earlier detection of fraud schemes through risk analysis and international exchange of risk signals among fraud units of EU Member States. As in 2009, the German federal tax administration was not able to provide quantitative information about carousel fraud losses, because this is the responsibility of the Länder.

Looking at the future, carousel fraud will clearly remain a threat as long as the current ‘temporary’ EU VAT system is in place. This means that tax authorities need to draw constant attention to this type of fraud. Relaxing the efforts to tackle intra-Community fraud could easily result in increased VAT losses, because of the late detection of carousels. Systematic evaluation of the effectiveness of anti-fraud measures and continuous monitoring of carousel fraud losses and new developments and trends in fraudulent behavior are essential to be able to focus on the most valuable instruments to tackle this kind of fraud.

At EU level the results of the joint follow-up audit again illustrate the need for EU member states to work together closely and exchange information to tackle carousel fraud. In this respect it is important to harmonize VAT procedures and standards, e.g. for registration/deregistration of VAT identification numbers, and chargeability rules. The cooperation of fraud units via Eurofisc remains another important element for the future.

By way of conclusion, let me point out that the results of this joint follow-up audit demonstrate clearly the added value of SAI cooperation in this area and will help them to learn from one another’s experience. The Belgian Court of Audit will continue to monitor progress made in combating intra-Community VAT fraud, inter alia via the VAT Working Group of the Contact Committee of the SAIs of the EU.

Vi ringrazio tutti per la cortese attenzione e desiderio, in nome della Corte dei Conti belga, i nostri colleghi Italiani una continuazione di successo di questo Seminario.