

The following news release has just been issued by HMRC:

New measure to tackle international VAT fraud

New rules making it harder for organised criminals to steal VAT from the UK taxpayer will be introduced on 1 June 2007.

Called the 'reverse charge', the measure is an important part of the Government's strategy to tackle Missing Trader Intra-Community (MTIC) fraud. It will see a new VAT accounting system applied to mobile phones and computer chips, which are the goods most commonly used in the fraud. By removing the opportunity to steal VAT on business-to-business transactions, it will prevent MTIC fraud in those goods.

The introduction of this measure will help to maintain the recent success of HM Revenue & Customs (HMRC) operational strategy, which has driven down MTIC related trading activity substantially in recent months.

Paymaster General, Dawn Primarolo MP said:

"I am pleased to announce the introduction of the reverse charge, which will further strengthen the Government's response to missing trader VAT fraud. We are targeting the measure at the goods most commonly used in the fraud. This is a proportionate step to safeguard taxpayers' money, and means that businesses can trade in these goods without the risk of getting caught up in the fraud.

"The Government remains determined to tackle this fraud and the criminals perpetrating it, and we are committed to working closely with our European and other international partners to combat this serious threat to the EU VAT system."

The Government has put in place a robust strategy for tackling MTIC fraud through a combination of legislation, litigation and operational activity. HMRC has committed 700 additional staff, and now uses over 1500 staff to identify and tackle the fraud and those involved in it.

In recent months HMRC has focused efforts on denying the fraudsters access to the proceeds of their crimes, including through checking VAT repayment claims from those trading in supply chains associated with MTIC fraud. As a result the level of trading associated with attempted fraud has fallen significantly in recent months. The Government will continue to work to maintain the downward pressure on the fraud following the introduction of the reverse charge, and will not hesitate to bring forward further measures as necessary.

Notes for editors

1. Under the reverse charge procedure, the supplier of the specified goods does not account for the VAT on their sales when selling to other VAT-registered businesses -

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instead it is the responsibility of the purchaser of the goods to account for the VAT. Provided that the purchaser has correctly done so, they can recover this VAT in the normal way. This means that HM Revenue & Customs (HMRC) is not put in a position where it may have to make repayments of VAT where the corresponding tax on the sale has not been paid to it.

2. The Government announced in January 2006 that it had sought a derogation to introduce the reverse charge, and legislation was included in last year's Finance Act, enabling the reverse charge to be implemented on agreement of the derogation. HMRC has been working closely with businesses to prepare for this change, and will shortly issue detailed guidance and draft legislation.

3. The derogation covers two categories of goods:

- * mobile telephones

- * computer chips/microprocessors/central processing units

4. The majority of current fraud is perpetrated using mobile telephones and computer chips. MTIC fraud is an EU-wide criminal attack on the VAT system, and widely acknowledged as a problem across the EU. We continue to work closely with our European and other international partners to counter it. Official estimates of the level of MTIC fraud in the UK for 2005-06 were published alongside the PBR on 6 December 2006.

5. The Government has put in place a comprehensive strategy for tackling MTIC fraud through a combination of legislation, litigation and operational activity - now over 1500 Revenue and Customs officers are deployed on tackling this fraud. This strategy is having a significant impact, and statistics published by the ONS, using estimates produced by HMRC, show that the trend of reduced levels of trading associated with MTIC fraud is continuing, with a substantial reduction in recent months.