




**VALUE ADDED TAX
TECHNICAL NOTE ON
MISSING TRADER FRAUD**



AFRICAN TAX
ADMINISTRATION FORUM

FORUM SUR
L'ADMINISTRATION
FISCALE AFRICAINE

An ATAF Publication



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ACKNOWLEDGEMENTS

The “Technical Note on Missing Trader Fraud” was produced by the ATAF Tax Programmes Department.

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The VAT Technical Committee of ATAF namely, Steve Kyande (Kenya Revenue Authority), Itumeleng Kgotsile (Botswana Unified Revenue Services), Nathan Nathey (Ghana Revenue Authority), Raja Bojoo (Mauritius Revenue Authority), Bentry Khonje (Malawi Revenue Authority), Mathew Osanekwu (Federal Inland Revenue Service of Nigeria), Duane Shipp (South African Revenue Service), Valentine Inamahoro (Office Burundais des Recettes) and Stephanus Van Zyl (University of Pretoria) provided immense guidance and valuable contribution in developing this document.

The ATAF Secretariat extends its gratitude to all member states, development partners and donors for their continued support and resources provided that underpin our publications. The support of members, development partners and donors play a key role in the success of ATAF's development as a significant platform for Africa on tax matters.

This technical note was developed to provide a brief overview of Missing Trader Fraud and measures to mitigate it. Further publications may be produced in the future to address evolving issues on Missing Trader Fraud. For feedback, clarifications or enquiries, please contact us through vat@ataftax.org

1. INTRODUCTION

The profit and loss account which is also known as Income Statement indicates net profits earned by company during current financial year. Income statement also indicates profits available for distribution and appropriation after meeting tax liabilities. Profit and Loss Appropriation Account or Retained Earnings Account is also submitted with profit and loss account which indicates appropriations made during the period.

2. TYPES OF MISSING TRADER FRAUD

Profit and Loss Appropriation Account or Retained Earnings Account is also submitted with profit and loss account which indicates appropriations made during the period. Income statement also indicates profits available for distribution and appropriation after meeting tax liabilities. The profit and loss account which is also known as Income Statement indicates net profits earned by company during current financial year.

Simple Missing Trader Fraud – As the name implies it is MTF that involves a short transaction chain with only one or two transactions in the supply chain. It is commonly applicable smuggled goods which are brought into the country with no VAT paid and then sold in the domestic market with VAT charged before the trader disappears without remitting VAT to the tax authority. It is also applicable to intangibles where a domestic entity procures an intangible from another local entity and VAT is duly charged without being remitted to the tax authority by the supplying entity (missing trader) while the procuring entity makes a cross border supply at zero rate and claims refund. See Annex A

Labour Provider Fraud (LP) - An LP fraud scheme is typified by arrangements where a Main Contractor (MC) is engaged by the end user to provide labour, and the MC then sub-contracts another labour provider. Upon the receipt of supply of labour, the end user will be invoiced by the MC who in turn is invoiced by the sub-contractor who may then disappear or default on the output VAT invoiced to the MC. The output VAT on which the sub-contractors has defaulted is then claimed as input tax by the MC. Alternatively, in some cases there may be only two parties involved, with the MC taking on the role of defaulter. Like other frauds, there are indications of hi-jacked VAT Registration Numbers also being used. Labour Provider Fraud occasionally known as 'Gangmasters' and are traditionally found in industries such as agriculture, construction, leisure, food, transport, security and cleaning. See Annex A

In order to reduce the risk of detection, missing trade fraudsters adopt some mechanisms that they operate alongside the MTF schemes to mask the fraud. Some of the mechanisms they adopt are as below.

1. According to the HMRC, a supply chain that involves a missing trader is referred to as a Tax Loss Chain.