BRIEFING

European Parliament

Filling the gap: The EU's fight against VAT fraud

SUMMARY

Value added tax (VAT) is a crucial revenue stream for both EU and national budgets. However, substantial losses resulting from domestic and cross-border VAT fraud make its enforcement an essential priority amid growing financial demands. Fraudsters, who are regularly part of organised criminal networks, exploit weaknesses in the VAT system, causing government revenue losses worth billions of euros.

Over the years, the EU and its Member States have taken a variety of measures to close VAT loopholes, adopting innovative digital tools to facilitate exchange of information and detect and stop fraudulent transactions as fast as possible. Member States have also committed to cooperating more closely, through bodies such as the European Public Prosecutor's Office and Eurofisc; this has led to the successful dismantling of major VAT fraud networks responsible for billions of euros of damage. While progress has been made, the involvement of multiple actors in combating VAT fraud has raised questions about how to optimise cooperation between these bodies.

European Commissioner for Taxation, Wopke Hoekstra, has been tasked with maintaining ambitious efforts to combat tax fraud in the EU, while the Commissioner for Budget, Piotr Serafin, is leading a review of the EU's anti-fraud structures with a view to enhancing efficiency and cooperation.

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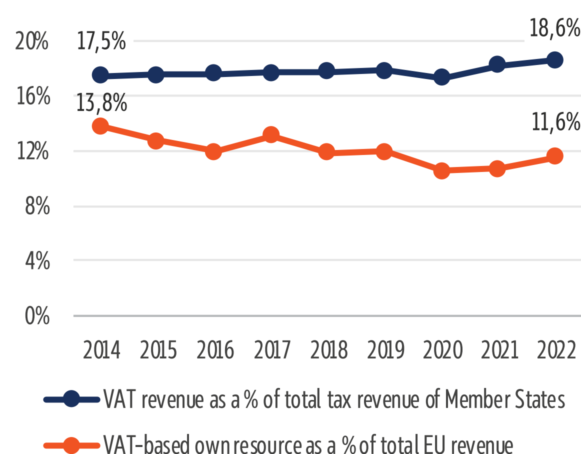
Context

Value added tax (VAT) is a key cornerstone of each EU Member State's tax system. Each year, more than €1 trillion in VAT revenue is raised in the EU, accounting for almost one fifth of all taxes collected (see Figure 1), and its importance within the tax mix has been steadily growing.

Since the 1970s, VAT has also served as the basis for one of the EU's own resources, with a designated share of Member States' VAT revenue automatically allocated to the EU budget. In 2023, this mechanism contributed €22 billion to the EU budget, accounting for over one tenth of the total budget for that year.

Figure 1 – VAT revenue in the EU-27, 2014-2022



Data source: European Commission, TAXUD database. (Total revenue includes social contributions; last update: March 2024) and EU Budget online.

Given the critical role of VAT revenue for both national budgets and that of the EU, there is concern about the large amount of VAT that is lost each year in the EU owing to domestic and cross-border VAT fraud. Given the tight budgets and demands for increased expenditure, particularly in areas such as defence, combating VAT fraud remains a pressing priority for the Member States and the EU as a whole.

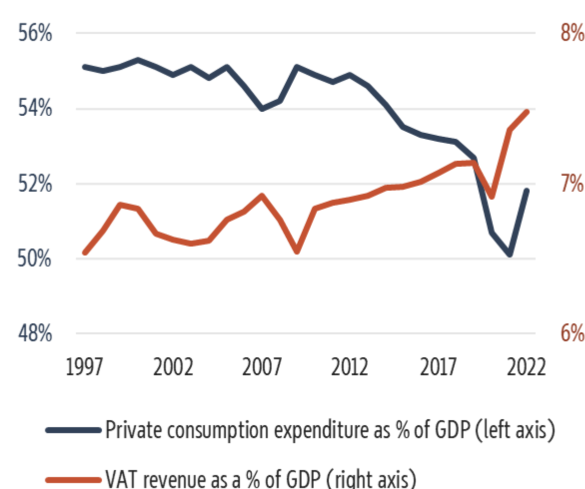
VAT gap

Each year, the European Commission publishes a proxy estimate of the amount of VAT revenue that is lost: the VAT gap.[1] This gap originates from four sources:

1. (domestic and cross-border) fraud and evasion;
2. corporate insolvencies and bankruptcies (businesses that are no longer able to remit the VAT they owe to the tax authorities because of bankruptcy or insolvency);
3. (legal) avoidance (for instance, people crossing Member States' borders to benefit from a lower VAT rate on purchases in another Member State);
4. maladministration (administrative errors, miscalculations).

In 2022, the VAT gap was estimated at €89 billion, or about 7 % of the total expected VAT revenue.[2] Put into perspective, this represents roughly half of the EU's annual budget. Commissioner Wopke Hoekstra, in charge of taxation, deemed it 'a missed opportunity with a significant price tag'. The largest VAT gap was found in Romania (31 %),

Figure 2 – Evolution of private consumption expenditure and VAT revenue as a percentage of GDP, EU-27, 1997-2022



Data source: European Commission, TAXUD database (last update: March 2024) and Eurostat (last update: January 2025).

while Ireland, Cyprus and Portugal registered gaps below 2 %. It is estimated that approximately one quarter of the VAT gap is directly linked to criminal VAT fraud; however, precise figures for the fraud component are challenging to determine.

While decreasing the VAT gap all the way to zero is virtually impossible, progress has been achieved over the past few years. In 2014, the VAT gap was €142 billion, representing 15 % of total expected VAT revenue.[3] The steady decline to €89 billion by 2022 reflects concerted efforts by all EU Member States to enhance compliance through digital means, fraud-proofing VAT rules, and stronger cooperation between tax authorities.

Another way to observe the positive evolution of VAT compliance is by examining trends in private consumption expenditure. Since VAT is the most significant consumption tax, VAT revenue is generally expected to mirror closely changes in private consumption. Historically, this correlation held true. However, a notable divergence has emerged (see Figure 2). Despite a noticeable decline in private household consumption as a percentage of gross domestic product (GDP), VAT revenue as a percentage of GDP has shown a near-consistent upward trend over the past 10 years. This decoupling suggests improvements in VAT compliance and collection efficiency, as well as the impact of various anti-fraud measures.

Origins of VAT fraud

As highlighted earlier, numerous factors contribute to the VAT gap. However, fraud stands out as a particularly significant and complex issue, undermining revenue collection, fairness and fiscal stability.

Revisiting the core principle of the EU VAT system may help better to understand how VAT fraud can occur: the system is built on the concept of 'tax neutrality'. VAT operates as a consumption tax, where the financial burden ultimately falls on the final consumer only. Businesses charge VAT on their sales to their customers ('output VAT'), which must be remitted to the tax authorities. At the same time, businesses pay VAT on goods and services used for their operations ('input VAT'), which they can recover. Businesses declare the VAT paid and collected through their monthly or quarterly VAT return, which determines the net VAT owed (by subtracting input VAT from output VAT).

While VAT fraudsters may employ multiple schemes, each varying in complexity, the objective of all VAT fraud schemes is generally the same: to inflate the input VAT claims artificially (i.e. to receive undue refunds from the tax authorities) or to under-report – or completely fail to report – the output VAT (i.e. to retain the funds illegally for themselves). This VAT fraud both causes significant revenue losses for public finances and distorts the level playing field for the vast majority of honest, tax-compliant businesses, forcing Member States to raise other taxes to make up for lost revenue.

Of the many different types of VAT fraud linked to either domestic or cross-border trade, two major types of cross-border fraud are discussed below: (i) missing trader intra-Community (carousel) fraud ('MTIC fraud'); and (ii) intra-Community customs procedure 42 fraud ('CP42 fraud').[4]

Missing-trader intra-Community (carousel) fraud

Missing-trader intra-Community (carousel) fraud ('MTIC fraud') is one the most notorious and prevalent VAT fraud schemes in the EU. To understand how fraudsters exploit the system, it is essential to first grasp the legitimate VAT treatment of intra-Community transactions.[5] In short, when a business supplies goods to another business, with the goods physically transported from one Member State to another, the treatment of this intra-Community sale of goods occurs in two distinct transactions for VAT purposes: a tax-exempt intra-Community supply by the seller, and a taxable intra-Community acquisition by the customer.[6]

- **Tax exempt intra-Community supply** in the Member State where the goods transport begins ('Member State of departure'): the supplier obtains and verifies the customer's VAT number.[7] The supplier issues an invoice, including both their own VAT

number and that of the customer, and specifies that the supply is 'VAT exempt' because of its qualification as an intra-Community supply.[8] Subsequently, the supplier is required to report the transaction in a 'recapitulative statement' (also referred to as 'EC sales list').[9] In this monthly or quarterly submission, the supplier declares the aggregated value of goods (or services) sold to businesses in other Member States, broken down per customer.[10] Additionally, the business may need to declare the sale in an Intrastat report.[11] As part of its bookkeeping, the supplier keeps supporting documents relating to the transaction, such as documentation to prove that the goods were physically transported to another Member State (shipping invoice, bill of lading, or other relevant transportation evidence).

- **Taxable intra-Community acquisition** in the Member State where the goods finally arrive ('Member State of destination'): the business customer self-accounts for the VAT on the intra-Community sale of goods. Although the customer is liable for the VAT due on the acquisition, no actual payment is made, as the VAT is deducted simultaneously as input VAT. The business customer needs to report the transaction in their VAT return and possibly in an Intrastat report.

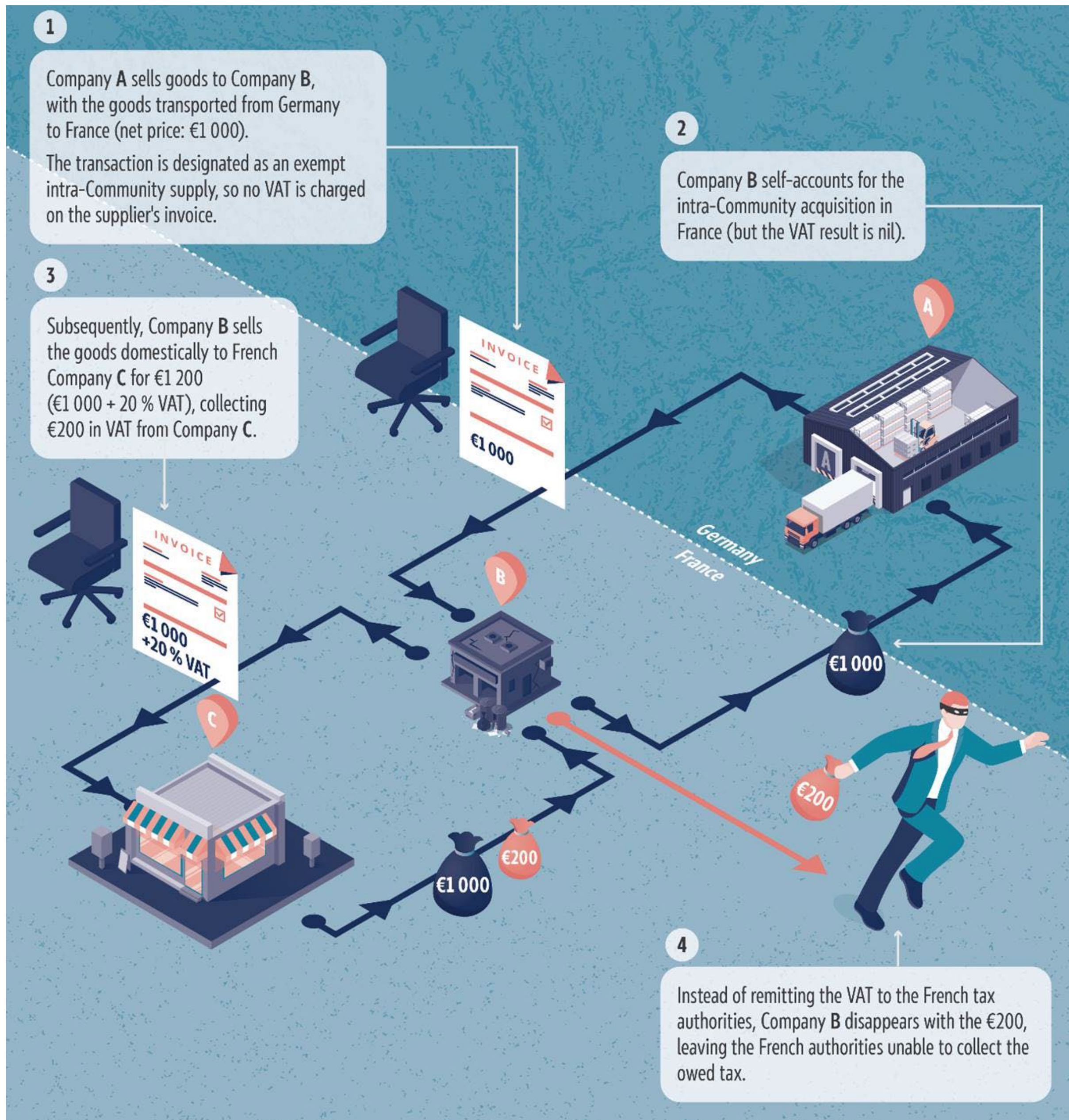
While the system of two distinct transactions for a single intra-Community sale may seem complex at first, it offers several benefits for both supplier and customer. For the supplier, the exempt supply in the Member State of origin eliminates the administrative burden of having to register for VAT in the Member State of destination and dealing with the local VAT rules and rates. The customer benefits, as well: if the customer were required to pay VAT upfront to the supplier, this would affect the business's cash flow. Thanks to this system, the purchasing business can simply offset the output VAT with the input VAT immediately, in the same VAT return, leaving cash flow untouched.

However, this system creates a 'break' in the VAT payment chain, which fraudsters exploit in MTIC fraud schemes: the fraudster buys the goods VAT-free as an intra-Community acquisition and then disappears with the VAT collected on subsequent domestic sales (hence 'missing trader', see Figure 3 below for a basic example).[12]

An extended version of MTIC fraud is MTIC carousel fraud. As the name implies, this scheme operates like a carousel: the same goods are bought and (re)sold in a circular pattern, eventually returning to the original supplier. Once the goods have returned to their original supplier, the cycle starts again, this time perhaps involving a new set of companies, but operated by the same fraud network. With each cycle, fraudsters exploit the VAT system, increasing the fraudulent proceeds for the soon-to-be-missing traders.

MTIC fraud schemes typically involve high-value items that are easy to move in order to save on logistical and transportation costs, such as mobile phones, laptops and electronics. CO_2 emissions certificates, too, have been used by VAT fraudsters. Fraudsters also tend to involve products that are subject to high VAT rates, to maximise the potential gains. In extreme cases, there may not even be any real physical goods involved. Rather, the transportation and purchasing of goods may only exist 'on paper' through the use of fake invoices.

Figure 3 – Example of MTIC fraud



MTIC fraud is a highly damaging type of fraud in the EU. A study on its scale estimated that MTIC fraud resulted in €23 billion in VAT revenue losses in the EU in 2023, with the lowest relative losses in Italy and the highest in Hungary and Malta. The study found no correlation between Member States' VAT gaps and MTIC gaps, suggesting that some countries may have effective strategies to combat MTIC fraud, but may be less successful in addressing other sources of VAT losses and vice versa.

Detecting and prosecuting MTIC fraudsters is a complex task. Fraudsters may intermingle fraudulent transactions with legitimate ones in order to evade detection by tax authorities. The complexity is further exacerbated by the use of 'buffer companies' in the transaction network. These companies (which can be located in different Member States) serve to lengthen and complicate the VAT chain, rendering the fraud more difficult for the tax authorities to detect and trace. Buffer companies may also be operated by honest, tax-compliant taxpayers who unknowingly become entangled in a fraudulent VAT chain, making judicial proceedings more difficult, as authorities try to distinguish between those deliberately participating in the fraud and those inadvertently caught up in it.[13] The

sophisticated nature of VAT fraud is underscored, for example, by the testimony of a witness during an investigation led by the European Public Prosecutor's Office, who deemed VAT fraud a 'clean area' because 'you risk nothing, you just need to find an accountant, a good lawyer and someone who knows how to talk, and you can make big money'.

Missing traders, while formally registered as companies for VAT purposes, are frequently operated through shell entities, with no real office, employees or assets, acting as a mere front to carry out fraud. Alternatively, missing traders may issue false invoices under the VAT registration number of a legitimate business, without the rightful owner's knowledge. By the time the authorities have detected irregular data in the (aggregated and monthly/quarterly) data from recapitulative statements, Intrastat reports, VAT returns or other documents, the fraudsters have often already vanished. Owing to the complex, cross-border nature of MTIC fraud, the culprits are regularly part of organised criminal networks, with the proceeds transferred to offshore accounts and used to fund illegal activities. The European Court of Auditors estimates that 2 % of organised crime could be behind 80 % of MTIC fraud cases.

Intra-Community customs procedure 42 fraud ('CP42 fraud')

Another extensive VAT fraud scheme linked to cross-border trade is intra-Community customs procedure 42 fraud ('CP42 fraud').

While the import of goods is generally subject to VAT, the EU VAT Directive provides for several specific exemptions in certain cases. Article 143(1)(d) exempts the importation of goods when the import is immediately followed by an intra-Community supply or transfer. Accordingly, the importation of goods in one Member State is exempt when those goods are destined for a business customer in another Member State (the subsequent intra-Community supply to the final customer would also be exempt in line with Article 138(1)).[14] To apply this exemption, the importer is required to lodge an import declaration under customs procedure 42, and provide their VAT identification number (issued by the Member State of importation); the customer's VAT identification number (issued by the Member State of destination); and evidence that the goods are due to be transported to the other Member State. This simplification ensures that the importer does not need to seek reimbursement of the import VAT, causing cash-flow constraints and administrative obligations. The buyer in the Member State of destination – where the goods ultimately arrive – accounts for the VAT due on the intra-Community acquisition in their VAT return.

However, fraudsters make use of this exemption, and of suboptimal coordination between customs data and VAT data, in order to bring goods VAT-free into the EU under the false pretence that goods will be transported to another Member State. Instead, the goods remain in the Member State of importation or are consumed in the Member State of destination, without VAT ever being remitted to the tax authorities. The abuse of CP42 has been repeatedly highlighted by the European Court of Auditors (in 2011, 2015, 2017 and 2019).

Policy measures against VAT fraud: Examples

Over the years, the EU has taken a broad array of measures to (in)directly fight CP42, MTIC (carousel) and other types of VAT fraud. These efforts include both EU-wide direct and indirect measures to detect and stop VAT fraud schemes, complemented by actions taken by Member States at the national level. Of the numerous measures that have been put in place to address VAT fraud comprehensively, three prominent policy initiatives are discussed below.

Removal of €22 low-value consignments VAT relief

When goods are imported into the EU, customs authorities, among other checks, have to verify whether customs duties and VAT have been applied correctly. The significant amount of packages, (often of little numerical value) flowing through customs creates difficulties in confronting VAT and customs fraud. One study concluded that 'potential revenue recovery on catching individual cases

of fraud is miniscule, making it hard to justify the resources needed for adequate controls'. This issue has been further exacerbated with the continued growth of e-commerce.

In July 2021, EU Member States removed the €22 low-value consignments exemption, a policy that had previously allowed goods valued at €22 or less to be imported VAT-free when directly supplied to EU consumers. This exemption had been widely criticised as a loophole highly susceptible to fraud – estimated at €7 billion per year – with sellers incentivised to undervalue and mislabel goods deliberately in order to eliminate VAT charges ('undervaluation fraud').[15] Consequently, all goods imported into the EU are now subject to VAT, regardless of value, and initial results have shown that the policy was successful in combating this type of fraud.

Central electronic system of payment information (CESOP)

The digital economy and e-commerce have created unprecedented opportunities for businesses to engage in cross-border trade. However, some companies (operating inside or outside the EU) that sell goods online to customers in EU Member States have been found to evade VAT obligations by failing to register for VAT in the countries where their sales occur, thereby avoiding VAT charges, or to under-report their sales. To address this issue, the Council supported new reporting obligations for payment service providers (PSPs) such as banks. Since 2024, PSPs are required to report certain payment data on entities in another Member State or outside the EU that receive more than 25 cross-border online payments per quarter (where the payer is in the EU). This information is collected in the Central electronic system of payment information (CESOP), where Member States' anti-fraud experts analyse and cross-check it with other data. These reporting measures are designed to enhance transparency in online sellers' VAT obligations.

VAT in the digital age

The digitalisation of society has had far-reaching consequences for the fight against VAT fraud. Tax authorities have invested substantially in digital infrastructure in order to improve the tax system overall, and the results appear encouraging. The top 10 Member States that invested the most in IT in their tax administrations between 2016 and 2019 saw an 81 % greater increase in VAT revenue compared with other EU countries. With a vast amount of data collected, tax authorities use advanced artificial intelligence-based tools to detect and stop tax fraud in a quick and targeted way. Digital means of communication have allowed for a swifter exchange of information both between businesses and the tax authorities, and between the tax authorities of the different Member States, contributing to improved VAT compliance. The increased use of digital payments, rather than cash, and electronic invoices (e-invoicing) has further supported efforts to detect fraudulent transactions.

The introduction of digital reporting requirements (DRRs), which are primarily intended to fight VAT fraud, has brought significant changes. While the design, scope and implementation of DRRs vary across Member States, DRRs generally require businesses to exchange a detailed track of their sales and purchases with the tax authorities in (near-)real time. This automatic digital exchange of information – about the seller, the customer, the VAT charged and the individual transactions while they are taking place – enable the tax authorities to keep a close eye on transactions and the related VAT trail, to detect errors, anomalies and suspicious behaviour, and to intervene when they believe there is fraud at hand. Thus, by reducing the 'time-lag' between fraudulent activities and the authorities' detection and enforcement actions, DRRs enhance authorities' ability to detect and deter VAT fraud. Although many Member States have introduced DRRs only recently, there are early indications of their positive impact (see Box 1). According to estimates, national DRRs have led to an additional VAT revenue of between €19 billion and 28 billion in the EU between 2014 and 2019.

Box 1 – Italy: Sistema di Intercambio (SDI)

Italy had for a long time one of the highest VAT gaps in the EU, amounting to about €35 billion in 2018. To counter the high levels of VAT fraud in the country, Italy in 2019 introduced the *Sistema di Intercambio* (SDI) exchange system for business-to-business transactions. Under this DRR, businesses must issue electronic invoices for such transactions and send them to the SDI platform, allowing the tax authorities to check the content. If there are no irregularities, the invoice is validated and sent to the customer, allowing tax authorities to have an overview of transactions and the VAT-trail almost in real-time.

The SDI system was one of the first and most stringent electronic invoicing DRR frameworks in the EU, representing a highly advanced 'clearance' model, with a broad scope. SDI's introduction coincided with a notable reduction in Italy's VAT gap, which decreased from €35 billion to €16 billion between 2018 and 2022. While it is difficult to determine the precise impact of the SDI system alone, the timing suggests it likely played a considerable role in supporting this progress.

To strengthen the fight against MTIC fraud and harmonise the divergent DRR systems across the EU, the Council supported the VAT in the digital age package (VIDA).[16] As a result, a mandatory, harmonised DRR for intra-Community business-to-business transactions, based on e-invoicing, is to be introduced EU-wide as of 2030.[17] Businesses – both suppliers and customers – would need to report data from the e-invoices. Tax authorities would share the data reported by suppliers and customers in a central EU-wide database, allowing that data to be cross-checked (VAT information exchange system).[18] VIDA also lays down a framework for a DRR for domestic transactions, which Member States would have to follow if they decide to implement a domestic DRR.

Cross-border cooperation in combating VAT fraud

Over the years, EU Member States have joined forces to combat VAT fraud, recognising the extensive revenue losses caused to national and EU budgets. The cooperation channels at EU level to tackle VAT fraud are presented below.

On 6 February 2025, the European Parliament's FISC Subcommittee on Tax Matters will host an exchange of views with EPPO and Eurofisc on their respective roles in tackling VAT fraud in the EU.

Eurofisc

Established in 2010 through Council Regulation (EU) No 904/2010, Eurofisc is a network of anti-fraud officials of the EU Member States (plus Norway) dedicated exclusively to fighting VAT fraud. It provides for enhanced administrative cooperation between tax authorities, including through automatic data sharing, early warning mechanisms, joint enquiries, collaboration with Europol and OLAF, and access to CESOP data. In 2019, Eurofisc introduced the transaction network analysis (TNA) tool, an innovative data mining tool increasing the speed with which the vast amount of data can be streamlined, shared between and analysed by tax authorities. In 2023, Eurofisc identified nearly 3 500 fraudsters and uncovered €12.7 billion in fraudulent or suspicious transactions.

European Public Prosecutor's Office

Established by Council Regulation (EU) 2017/1939 and operational since 2021, the European Public Prosecutor's Office (EPPO) serves as the EU's public prosecution office. Chaired by the European Public Prosecutor, Laura Kövesi, the EPPO's main objective is to investigate and prosecute crimes against the EU budget, including cross-border VAT fraud. The EPPO focuses exclusively on high-value fraud cases, involving EU funds of over €10 000, and cross-border VAT fraud involving damage above €10 million. Unlike OLAF (see below), the EPPO can conduct criminal investigations and prosecutions. Currently, 24 Member States participate in the EPPO.[19] By the end of 2023, the EPPO was handling 339 VAT fraud cases with an estimated damage of €11.5 billion, uncovering several high-profile fraud networks with EU and national support (see Box 2).

Box 2 – The EPPO and the uncovering of VAT fraud networks: Examples

Admiral (I, II, III)

In April 2021, the Portuguese Tax Authorities launched an investigation into a local company specialising in the sale of electronic devices due to suspicions of VAT fraud. This initial investigation, later reported to EPPO, culminated into a large scale EU-wide operation, involving more than 200 searches (Investigation Admiral). With the support of Europol and national authorities, the operation unveiled the largest VAT carousel fraud network ever discovered in the EU, worth a staggering €2.2 billion.

Based on the initial investigation, a subsequent series of searches and arrests were carried out in November 2024 (Admiral 2.0) across 16 countries to uncover another suspected VAT fraud network, raising the fraud damage to €2.9 billion. One month later, a new suspected fraud network was uncovered in Greece (Admiral 3.0), worth €38 million.

Moby Dick

A 2024 investigation – codenamed Moby Dick – led by the EPPO into suspected VAT carousel fraud, linked to Italian organised crime, resulted in the issuance of 43 arrests warrants and a €520 million freezing order. In Italy alone, 129 bank accounts were frozen, 44 luxury cars and boats, together with 192 real estate properties seized.

Silk Road

In March 2023, the EPPO carried out 10 searches, together with the local authorities and the support of Europol, at several locations in Belgium. Four suspects were arrested who were believed to have been involved in a CP42 fraud ring, where goods were imported via Liege airport VAT-free under the pretence that the goods were destined for another Member State. The fraud ring is believed to have caused for up to €310 million in evaded taxes and duties.

Eurojust

In the European Union Agency for Criminal Justice Cooperation (Eurojust), national judicial authorities work closely together to fight serious organised cross-border crime, including cross-border VAT fraud. Eurojust has supported numerous actions against VAT fraud networks, ensuring cross-border judicial cooperation between affected Member States, including the execution of European investigation orders and the set-up of coordination centres on joint action days.

Europol

The European Union Agency for Law Enforcement Cooperation (Europol) supports the Member States in preventing and fighting international and organised crime, including VAT fraud. Europol – and in particular its European Financial and Economic Crime Centre – provides national law enforcement authorities with support, analysis and expertise in order to combat fraud networks.

Europol's involvement is particularly vital because VAT fraudsters are not merely exploiting financial systems – they are regularly part of organised and dangerous criminal networks, who use the fraud proceeds to fund other illegal activities that Europol combats, such as drugs or weapons trade. For instance, in 2024, Europol supported an investigation into a €300-million VAT carousel fraud network, where the perpetrators were believed to have been involved in drug trafficking and cybercrime, and links with Russian organised crime. Other VAT fraud networks have also been linked to terrorist organisations, making the fight against VAT fraud not just a matter of revenue safeguarding but also the security and safety of EU citizens.

OLAF

The EU anti-fraud office OLAF is tasked with fraud against the EU budget, including VAT fraud and customs duties fraud.[20] Its mandate also extends to tackling corruption and misconduct within the EU institutions. OLAF carries out administrative investigations into fraud, and notifies the Member States affected; however, it lacks the authority to launch criminal investigations or prosecutions.

Progress and future challenges

The fight against VAT fraud continues to be a pressing priority for EU Member States and the EU as a whole. The large amount of VAT revenue lost, combined with fraudsters' frequent links with criminal organisations, underscores the importance of addressing this issue. The President of the European Commission, Ursula von der Leyen, has tasked Commissioner Hoekstra with keeping up 'the highest level of ambition' in fighting tax fraud.

The progress achieved over the past decade should reinforce a sense of confidence that anti-fraud strategies are working. Strengthened VAT rules, combined with EU-level cooperation, have uncovered international VAT fraud networks responsible for billions of euros of damage, and decreased the VAT gap. In addition to protecting national budgets, this greater cooperation between Member States to fight VAT fraud has fostered new channels for collaboration and communication, which may serve as a foundation for expanding efforts to tackle other forms of fraud or avoidance.

At the same time, the involvement of multiple actors in the fight against fraud has raised questions about the efficiency and coherence of their cooperation. The Commissioner for Budget, Anti-Fraud and Public Administration, Piotr Serafin, has been tasked with leading a 'review of the overall anti-fraud structure'. In his confirmation hearing before the European Parliament, he pointed to the ongoing and forthcoming evaluations of the various anti-fraud bodies, the results of which may lead to changes aimed at enhancing synergies and streamlining working arrangements to optimise the fight against fraud. Serafin underscored, in particular, the need to enhance the cooperation and complementarity between OLAF and the EPPO. A revision of Council Regulation (EU) No 904/2010 on administrative cooperation in VAT, planned for the first quarter of 2025, is expected to strengthen both Eurofisc's abilities and its cooperation and information exchange with other anti-fraud bodies.

The development and use of new digital tools have also marked a turning point in the fight against VAT fraudsters. New technologies offer highly advanced solutions to analyse VAT data, visualise supply chains and the VAT trail, and stop fraudsters in near real-time, and their use and effectiveness is likely to increase in the years to come. Following the support in Council for the VAT in the Digital Age package, the introduction of an EU-wide DRR in 2030 will mean a revolutionary step in the fight against MTIC (carousel) fraud. In the meantime, several Member States are already operating or have planned to implement national equivalents for domestic transactions, which should further tackle other types of VAT fraud.

Nevertheless, the large amount of data reported and collected under the DRR will require time and resources, for both tax administrations and companies. The VAT Expert Group – a stakeholder group advising the European Commission – has expressed concern that the DRR may lead to excessive data clarification requests for honest businesses, and encourages the Commission to develop a set of guiding principles for Member States on how the DRR data should be used, collected and secured.

Moreover, both the dynamic and complex nature of the VAT system, coupled with the rise of new types of goods and services in an ever-digitalising and globalising world, may open up new loopholes for fraudsters to exploit. Therefore, policymakers and authorities will need to stay vigilant to address new evolving challenges and sustain the fight against VAT fraud.

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ENDNOTES

1. The reports on the VAT gap measure both a VAT compliance gap (the difference between the amount VAT that would be collected in the case of full compliance and revenue actually collected) and a VAT policy gap (the amount of VAT lost owing to reductions in VAT rates or exemptions applied by Member States, compared with a single statutory VAT rate). The VAT compliance gap is often simply referred to as the 'VAT gap', and this briefing follows that approach.
2. The VAT gap remains a proxy estimate, based on various economic parameters, and does not indicate the 'actual' amount of revenue lost. By definition, the amount of VAT lost due to for instance fraud is extremely challenging to determine as such activities are deliberately concealed from the tax authorities.
3. This figure excludes the amount of VAT lost by the United Kingdom that year.
4. One crucial element when discussing VAT fraud is the complexity of the overall VAT system. While there is a certain level of VAT harmonisation at EU level, substantial differences in national VAT procedures remain. This complexity can be exploited intentionally by fraudsters, and can also lead to genuine confusion and unintentional errors by honest sellers.
5. The EU VAT Directive refers to the 'Community' rather than the territory of the European Union. This terminology reflects (slight) differences in the EU's territorial scope for VAT purposes. Certain territories, although part of EU Member States, are excluded from the VAT area (for instance, the Canary Islands), and vice versa. See Articles 5-6.
6. The current treatment for VAT purposes of intra-Community transactions – introduced in 1993 following the removal of fiscal borders – was established as a transitional arrangement. Although intended to be temporary, this framework remains in place.
7. A business's VAT number is a unique code of characters provided by the national tax authority. Businesses can check the validity of their customer's VAT number through the EU VAT information exchange system (VIES).
8. Intra-Community supply of goods in accordance with Article 138(1) or intra-Community transfer of goods in accordance with Article 138(2c) EU VAT Directive.
9. Articles 262 to 271 EU VAT Directive.
10. More specifically, intra-Community goods transactions carried out in accordance with Articles 138(1) and 138(2)(c) EU VAT Directive, triangulation transactions ('ABC'), and intra-Community services transactions where the customer is liable to pay the VAT pursuant Article 196 ('reverse charge').
11. Intrastat is an EU system for collecting trade data on goods moved from and to EU Member States. VAT-registered businesses must file these monthly reports when their trade exceeds a certain threshold (this varies by Member State), and include such information as the quantity and value of the goods, and dispatch and arrival country. While Intrastat's primary objective is to collect trade statistics data, it can also be helpful in the fight against VAT fraud.
12. For the sake of simplicity and calculation, it is assumed that the 'missing trader' sells the goods to Company C at the same price they purchased them (€1 200). In practice, however, the 'missing trader' typically offers the goods at a discount in order to ensure a quick sale. The priority for the 'missing trader' is to escape with the VAT revenue as swiftly as possible, even if this means incurring a slight loss on the domestic sale.
13. In this context, reference is often made to the 'knew or should have known' principle, established by the European Court of Justice in the *Kittel* Cases (C-439/04 and C-440/04).
14. The importer should still report the intra-Community supply in their recapitulative statement.
15. In under-valuation fraud, traders declare a value of imported goods to customs that is lower than the goods' real value.
16. At the time of publication, the Council has adopted a general approach on the VIDA package. As it deviates from the original Commission proposal, Parliament will need to be reconsulted before Council can formally adopt the package.
17. Intra-Community transactions carried out in accordance with Article 138(1) or (2)(c) EU VAT Directive, and intra-Community transactions, other than goods or services that are exempted from VAT in the Member State where the transaction is taxable, for which the recipient is liable to pay the tax pursuant to Article 194 insofar the customer is identified for VAT purposes, and Articles 195, 196, 197 and 204.
18. The obligation to provide recapitulative statements would be removed, as that information would already be provided both quicker and in more detail through the DRR.
19. The non-participating Member States are Denmark, Ireland and Hungary.
20. While customs duty fraud and VAT fraud are distinct, they can go hand in hand. Since VAT is calculated based on the goods' total value (i.e. including customs duties), any under-valuing of the goods to evade customs duties will automatically lead to a lower VAT liability, as well.

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