

**Report to the Public Accounts Committee
on
measures to counter
VAT carousel fraud**

**September 2006
RB A303/06**



The National Audit Office of Denmark

Table of contents

	Page
I. Examination results	5
II. Introduction	11
A. Background.....	11
B. Purpose, delimitation and method	14
III. Organisation of control of businesses applying for VAT registration	16
A. Organisation of business registration and control	17
IV. SKAT's organisation of the control of VAT-registered businesses.....	22
A. Performance requirements, strategy and plans for control	23
B. Data for risk assessment of businesses	27
C. Organisation of control measures	29
D. Cooperation with foreign authorities	32
V. SKAT's cooperation with the police and the prosecution service on VAT carousel cases	34
A. Case processing	35
Appendices:	
1. VAT and VAT carousel fraud	41
2. SKAT, police and SØK processing time for VAT carousel cases	46

The National Audit Office of Denmark issues this report to the Public Accounts Committee in accordance with section 17(2) of the Auditor General's Act, see Consolidated Act No. 3 of 7 January 1997 as amended by Act No. 590 of 13 June 2006. The report relates to the following sections of the Danish Finance and Appropriation Act: Section 8, The Ministry of Business and Economic Affairs, Section 9, The Ministry of Taxation, and Section 11, The Ministry of Justice.

Report on the measures to counter VAT carousel fraud

I. Examination results

1. This report deals with the combat of VAT carousel fraud, which is a form of tax evasion. This type of fraud is possible because goods crossing intra-Community frontiers are tax-exempt, and the fraud is carried out by a chain of businesses trading with each other across EU frontiers to avoid paying VAT.

The report deals with the way in which the Danish customs and tax authorities (SKAT), the Danish police and the Danish Public Prosecutor for Serious Economic Crime (SØK) organise the measures to counter VAT carousel fraud. The report also deals with the tasks of the Danish Commerce and Companies Agency (E&S) as part of the registration and control of businesses applying for VAT registration.

2. The single market, which was established in 1993 to ensure the free movement of goods within the EU, made it considerably more difficult to detect VAT fraud, because control and investigation may involve several countries with differing VAT rates and data systems. The special type of VAT fraud named carousel fraud has become extremely widespread and caused Member States to suffer heavy losses. The fraud also results in loss of revenue for the EU, because the EU's own resources are calculated partly on the basis of the Member States' VAT receipts. Finally, the fraud may have consequences for the large number of businesses that abide by the rules, because the fraud enables fraudsters to undercut the prices of law-abiding business and thereby compete on unequal terms.

3. In a report issued in 1998, the European Court of Justice estimated the difference between the Member States' calculated and actual VAT receipts at some EUR 70 billion per year, equal to 21% of the Member States' total VAT receipts. Similarly, an audit report from 2003 estimated that Germany and Sweden had suffered a substantial loss of VAT receipts as a result of VAT carousel fraud. Finally, in

a report from 2004, the UK National Audit Office estimated the annual loss suffered by the British government as a result of VAT carousel fraud at some GBP 1.77 - 2.75 billion, equal to some DKK 18-28 billion.

4. Danmarks Statistik has calculated the difference between theoretically calculated Danish VAT receipts and actual VAT receipts at 5% of total VAT receipts for 2000, equal to some DKK 6.7 billion. In addition to economic crime, the difference also covers the black economy and bankruptcies. No estimates are available of lost VAT receipts in Denmark as a result of VAT carousel fraud. SKAT has estimated the total loss in the cases reported to the police since 1994 at some DKK 1 billion.

5. In practice, VAT carousel fraud can be carried out in various ways. A common feature is that businesses exploit the EU VAT system to obtain illegal gains in connection with the purchase and resale of goods from other Member States. The fraud is carried out by businesses importing goods VAT-free. When the goods are resold, the VAT charged is not paid to the tax authorities. The businesses acquiring the goods inclusive of VAT can reclaim the VAT from the tax authorities in compliance with the VAT rules. The government thus incurs a loss as a result of the missing VAT payment. Passing the goods around between businesses in individual Member States several times before possibly selling them to consumers enables businesses to make a gain several times and generates significant losses for the government.

The principles of VAT settlement and VAT carousel fraud are described in detail in appendix 1.

6. It may be difficult to identify businesses involved in VAT carousel fraud, because the fraud may involve both newly registered and well-established businesses.

According to SKAT, the businesses involved in the fraud often share common features. For newly registered businesses, a common feature may be a sharp increase in turnover shortly after registration. Strawmen are often used and the businesses often have a cover address, at which no business has actually been established.

VAT carousels always include one or more businesses which evade their VAT liability to the government, but the carousels also often include businesses which comply with the rules and settle VAT in due time. These businesses may have been inserted in the carousel to cover up the fraud and make identification more difficult for SKAT. However, the businesses may also be in good faith, being ignorant of the fraud resulting from VAT evasion in earlier links of the chain.

The goods that form part of the VAT carousel fraud are typically fast-selling, high-value items and items that are easy to transport, such as mobile phones and computer accessories. However, in recent years the fraud has spread to other types of goods, such as food and cars.

7. E&S' task is to perform the initial formal control of the information to be provided by businesses for VAT registration. SKAT's job as supervisory authority is to try and prevent businesses likely to take part in VAT carousel fraud from being registered. Once the businesses have been registered for VAT, it is also SKAT's job to try and detect the fraud when it has been committed.

VAT carousel fraud cases must be reported to SØK, which refers the case to the responsible police district. The role of the police and SØK as investigation authority and prosecution service is to investigate cases reported and prepare them for trial.

8. The incidence of VAT carousel fraud and the resulting significant loss of VAT receipts for the government has prompted the NAOD's examination of the initiatives taken by the authorities to combat this type of fraud.

The NAOD has examined and evaluated the authorities' organisation of the measures to counter VAT carousel fraud by answering the following questions:

- Is the authorities' organisation of the control of businesses applying for VAT registration targeted at VAT carousel fraud?
- Is the organisation of the control of VAT-registered businesses targeted at detecting VAT fraud?

- Is the organisation of the processing of VAT carousel fraud cases satisfactory?

9. The NAOD launched the examination at its own initiative in May 2005. The draft report has been presented to the Ministry of Taxation, the Ministry of Justice and the Ministry of Business and Economic Affairs, whose consultation responses have been incorporated in this report.

Examination results

It is the NAOD's overall opinion that on the basis of the conditions of the EU VAT system and the difficulties it poses in terms of control, the authorities have satisfactorily organised the measures to counter VAT carousel fraud. Although the measures have been intensified over the past few years, the examination has led to recommendations that will not only strengthen the measures to counter VAT carousel fraud but will also generally improve the methods of combating VAT fraud.

This overall opinion is based on the following:

SKAT and E&S have set up a formalised cooperation on the control of businesses applying for VAT registration. SKAT's organisation of registration control is to some extent aimed at detecting VAT carousel fraud, but may be strengthened by making the control more uniform.

- Essentially, the authorities have three days to register and check businesses applying for VAT registration. Accordingly, there is a need to cooperate closely and exchange information to ensure businesses are not registered unlawfully. The NAOD therefore finds it satisfactory that SKAT and E&S have formalised their cooperation on registration control.
- Initially, E&S makes a formality check of the information to be provided by businesses wishing to register for VAT. The cases are divided into two categories (focus list cases and waiting list cases), which are then passed on for control by SKAT. E&S places cases on the focus list if SKAT is to make a close examination of the business. Our examination showed that E&S organises its control satisfactorily.
- SKAT checks all cases placed by E&S on the focus list. Our examination showed that the control performed by SKAT is not uniform and adequate. For example, SKAT does not always check whether the business employs people who have previously been involved in economic crime and whether businesses possibly use cover ad-

dresses. The control can be improved by making it more uniform and adequate relative to the above-mentioned known risk factors. SKAT can also improve its registration control by being directly authorised to carry out cross-checking with police information on persons suspected of economic crime. However, this would require an amendment of the law.

- SKAT does not systematically assess all waiting list cases, which is not entirely satisfactory. The control could be improved by carrying out systematic risk assessments according to uniform principles.
- Spotchecks are the best way to find out whether businesses have incorrectly specified their business sector, or have used strawmen or cover addresses. Our examination showed that SKAT rarely carries out spotchecks at new businesses in connection with registration. In the NAOD's opinion, more spotchecks may serve as a deterrent, if the risk of discovery is high.

SKAT targets its control of VAT-registered businesses at detecting VAT carousel fraud, but the examination did give rise to certain recommendations.

- SKAT's action strategy includes combat of economic crime, including VAT carousel fraud, and the strategy emphasises the importance of devoting a larger share of control resources to detecting economic crime.
- SKAT's performance requirements provide adequate incentive to check businesses that are reluctant to comply with the tax rules (opponents) and thus support the measures to counter VAT carousel fraud. The control plans for 2004 and 2005 also included control items relating to economic crime, including VAT carousel fraud, which the NAOD finds satisfactory.
- SKAT assesses on an ongoing basis which possible intermediaries should be kept under surveillance for possible VAT carousel fraud, and exchanges information regarding the businesses with the tax authorities of other Member States. SKAT has laid down guidelines for payment control and, in connection with large payments of VAT, tax centres normally carry out an in-depth audit of the businesses' financial statements to ensure that payments are made on legal basis. The NAOD finds this satisfactory.
- SKAT introduced a new selection system in 2005 which on the whole has given SKAT better opportunities for identifying businesses likely to be participating in VAT carousel fraud. However, the system is based on information from the joint EU system "Value added tax Information Exchange System" (VIES), whose data are not

always reliable and updated. Moreover, the system does not include dormant businesses. A dormant business does not declare VAT, which may indicate that the business has no activity, but may also indicate unlawful failure to declare or pay VAT. The NAOB finds that SKAT should include dormant businesses in the selection system.

- SKAT does not automatically notify businesses of discrepancies in VIES so that businesses may check up on the declarations. Automatic notification of businesses will probably improve the quality of the information. The NAOB finds that SKAT should consider developing a system which automatically notifies businesses of erroneous information submitted to VIES. However, the system should await the introduction of a new VIES.
- SKAT has set target figures for compliance with case processing time limits. However, SKAT's target figures do not include requests from the tax authorities of other countries. SKAT does not entirely satisfy the requirement of answering requests from the tax authorities of other countries within the three-month time limit stipulated by the EU. The NAOB finds that requests from other countries should be included in SKAT's target figures, which would provide a greater incentive to answer such requests within the time limit.

The case processing regarding VAT carousel fraud cases is satisfactory. Over the past few years, SKAT, the police and SØK have taken steps to strengthen the cooperation between the authorities, incorporating the experience gained from VAT carousel cases on an ongoing basis to strengthen control and investigation. However, the authorities' consideration of VAT carousel cases can be further improved, for example by better organisation of the case processing.

- In 2005, SØK and SKAT set up a task force to strengthen the measures to counter VAT carousel fraud and other offences. The initiative has resulted in several recommendations regarding cooperation between authorities and new methods to be applied, including preparation of risk profiles.
- As part of the competency development, the experience gained from VAT carousel cases has also been incorporated in courses and supplementary training for the staff performing the control and investigation, which the NAOB finds satisfactory.
- The examination showed that the average case processing time for VAT carousel cases is three months for SKAT and 22 months for the police/SØK. The average case processing time reflects that the processing of some cases

has been extremely lengthy, whereas in other cases, it has been short.

- The case processing has partly been influenced by external circumstances beyond the authorities' control and partly by the authorities' own organisation of the case processing. In the following, the NAOD highlights the factors which authorities can influence themselves.
- SØK, the police and SKAT have not set targets and time frames for the case processing of all cases. Besides, it has not always been made clear from the start which competencies are necessary to ensure that progress is made, which may cause cases to drag on. The NAOD finds that SØK, the police and SKAT should in all cases clarify from the start which competencies are necessary to ensure that progress is made in the cases. This can be done by organising the cooperation in joint project groups in order to incorporate all relevant competencies. Moreover, case processing targets and time frames should be set. The Ministry of Justice has stated that project-oriented work is now established practice in SØK and that targets and performance requirements will be set to help facilitate fast and efficient case processing.
- Our review also showed that only in a few cases was the prosecution service involved from the start. The NAOD finds that the cases should be further promoted by involving the prosecution service from the start of a case, so that it may contribute to ensuring that the legal aspects of a case are considered at an early stage. The Ministry of Justice has stated that an early initiative by the prosecution service is now established practice in SØK.
- The Ministry of Justice has pointed out that amendments to the Danish Administration of Justice Act concerning the processing of economic crime cases will provide for faster trial. Furthermore, the new police reform is expected to expand and maintain the special police competencies and routines required for economic crime cases, which will also strengthen the counter-measures.

II. Introduction

A. Background

10. This report deals with the combat of VAT carousel fraud, which is a form of tax evasion. This type of fraud is possible because goods crossing intra-Community frontiers are tax-exempt, and the fraud is carried out by a chain

of businesses trading with each other across EU frontiers to avoid paying VAT.

The report deals with the way in which SKAT, the Danish police and the Danish Public Prosecutor for Serious Economic Crime (SØK) organise the measures to counter VAT carousel fraud. The report also deals with the tasks of the Danish Commerce and Companies Agency (E&S) as part of the registration and control of businesses applying for VAT registration.

11. The single market, which was established in 1993 to ensure the free movement of goods within the EU, made it considerably more difficult to detect VAT fraud, because control and investigation may involve several countries with differing VAT rates and data systems. The special type of VAT fraud named carousel fraud has become extremely widespread and caused Member States to suffer heavy losses. The fraud also results in loss of revenue for the EU, because the EU's own resources are calculated partly on the basis of the Member States' VAT receipts. Finally, the fraud may have consequences for the large number of businesses that abide by the rules, because the fraud enables fraudsters to undercut the prices of law-abiding business and thereby compete on unequal terms.

12. In a report issued in 1998, the European Court of Justice estimated the difference between the Member States' calculated and actual VAT receipts at some EUR 70 billion per year, equal to 21% of the Member States' total VAT receipts. Similarly, an audit report from 2003 estimated that Germany and Sweden had suffered a substantial loss of VAT receipts as a result of VAT carousel fraud. Finally, in a report from 2004, the UK National Audit Office estimated the annual loss suffered by the British government as a result of VAT carousel fraud at some GBP 1.77-2.75 billion, equal to some DKK 18-28 billion.

13. Danmarks Statistik has calculated the difference between theoretically calculated Danish VAT receipts and actual VAT receipts at 5% of total VAT receipts for 2000, equal to some DKK 6.7 billion. In addition to economic crime, the difference also covers the black economy and bankruptcies. No estimates are available of lost VAT receipts

in Denmark as a result of VAT carousel fraud. SKAT has estimated the total loss in the cases reported to the police since 1994 at some DKK 1 billion.

14. In practice, VAT carousel fraud can be carried out in various ways. A common feature is that businesses exploit the EU VAT system to obtain illegal gains in connection with the purchase and resale of goods from other Member States. The fraud is carried out by businesses importing goods VAT-free. When the goods are resold, the VAT charged is not paid to the tax authorities. The businesses acquiring the goods inclusive of VAT can reclaim the VAT from the tax authorities in compliance with the VAT rules. The government thus incurs a loss as a result of the missing VAT payment. Passing the goods around between businesses in individual Member States several times before possibly selling them to consumers enables businesses to make a gain several times and generates significant losses for the government.

The principles of VAT settlement and VAT carousel fraud are described in detail in appendix 1.

15. It may be difficult to identify businesses involved in VAT carousel fraud, because the fraud may involve both newly registered and well-established businesses.

According to SKAT, the businesses involved in the fraud often share common features. For newly registered businesses, a common feature may be a sharp increase in turnover shortly after registration. Strawmen are often used and the businesses often have a cover address, at which no business has actually been established.

VAT carousels always include one or more businesses which evade their VAT liability to the government, but the carousels also often include businesses which comply with the rules and settle VAT in due time. These businesses may have been inserted in the carousel to cover up the fraud and make identification more difficult for SKAT. However, the businesses may also be in good faith, being ignorant of the fraud resulting from VAT evasion in earlier links of the chain.

The goods that form part of the VAT carousel fraud are typically fast-selling, high-value items and items that are easy to transport, such as mobile phones and computer ac-

cessories. However, in recent years the fraud has spread to other types of goods, such as food and cars.

16. E&S' task is to perform the initial formal control of the information to be provided by businesses for VAT registration. SKAT's job as supervisory authority is to try and prevent businesses likely to take part in VAT carousel fraud from being registered. Once the businesses have been registered for VAT, it is also SKAT's job to try and detect the fraud when it has been committed.

VAT carousel fraud cases must be reported to SØK, which refers the case to the responsible police district. The role of the police and SØK as investigation authority and prosecution service is to investigate cases reported and prepare them for trial.

17. The incidence of VAT carousel fraud and the resulting significant loss of VAT receipts for the government has prompted the NAOD's examination of the initiatives taken by the authorities to combat this type of fraud.

B. Purpose, delimitation and method

18. The overall purpose is to examine and evaluate the authorities' organisation of the measures to counter VAT carousel fraud. This was done by answering the following questions:

- Is the authorities' organisation of the control of businesses applying for VAT registration targeted at VAT carousel fraud?
- Is the organisation of the control of VAT-registered businesses targeted at detecting VAT fraud?
- Is the organisation of the processing of VAT carousel fraud cases satisfactory?

19. VAT carousel fraud is most effectively fought by preventing businesses intending to commit fraud from registration. However, this may be difficult because in some cases the persons applying for registration are not already known to SKAT. It is important for SKAT to be able to detect businesses that may previously have been involved in fraud and thus prevent them from being registered. It is

therefore relevant to investigate whether the authorities' organisation of the control of businesses applying for VAT registration is targeted at VAT carousel fraud.

20. VAT carousel fraud may occur once a business has been registered for VAT. It is important that SKAT quickly puts a stop to businesses engaging in VAT fraud in order to minimise the loss suffered by the government. This was the reason for examining whether SKAT's organisation of the control of registered businesses is targeted at detecting VAT carousel fraud.

21. Whenever SKAT suspects VAT carousel fraud, it must report the case to the police and/or SØK, which investigate and prepare the case for trial. These cases are tried for VAT fraud, see section 289 of the Danish Criminal Code, and involve serious economic crime with a risk of substantial losses of VAT. In some cases, the processing may take four to five years. The long duration of cases was precisely the reason for examining whether the organisation of the case processing and cooperation between the authorities ensure that progress is made in such cases.

22. The examination has been limited to VAT fraud in connection with intra-Community trade. In terms of time, the examination has been limited to a review and evaluation of SKAT's measures to counter VAT carousel fraud in 2005. However, the NAOD has selected criminal cases dating back to 2000 as basis of the examination.

23. The examination is based on interviews with SKAT, E&S, the police and SØK. Moreover, the NAOD examined 120 registration and control cases and data relating to registration and control. In addition, the NAOD examined 15 VAT carousel fraud cases, all of which have been reported to SØK since 2000.

Finally, the NAOD obtained information about the practice of four other Member States in this field.

24. The examination was conducted in cooperation with SKAT's internal audit department, which participated in the tax centre interviews and the case reviews.

25. The NAO launched the examination at its own initiative in May 2005. The draft report has been presented to the Ministry of Taxation, the Ministry of Justice and the Ministry of Economic and Business Affairs, whose consultation responses have been incorporated in this report.

III. Organisation of control of businesses applying for VAT registration

The NAO's comments

SKAT and E&S have set up a formalised cooperation on the control of businesses applying for VAT registration. SKAT's organisation of registration control is to some extent aimed at detecting VAT carousel fraud, but may be strengthened by making the control more uniform.

This opinion is based on:

- Essentially, the authorities have three days to register and check businesses applying for VAT registration. Accordingly, there is a need to cooperate closely and exchange information to ensure businesses are not registered unlawfully. The NAO therefore finds it satisfactory that SKAT and E&S have formalised their cooperation on registration control.
- Initially, E&S makes a formality check of the information to be provided by the businesses wishing to register for VAT. The cases are divided into two categories (focus list cases and waiting list cases), which are then passed on for control by SKAT. E&S places cases on the focus list if SKAT is to make a close examination of the business. Our examination showed that E&S organises its control satisfactorily.
- SKAT checks all cases placed by E&S on the focus list. Our examination showed that the control performed by SKAT is not uniform and adequate. For example, SKAT does not always check whether the business employs people who have previously been involved in economic crime and whether businesses possibly use cover addresses. The control can be improved by making it more uniform and adequate relative to the above-mentioned known risk factors. SKAT can also improve its registration control by being directly authorised to carry out cross-checking with police information on persons suspected of economic crime. However, this would require an amendment of the law.

- SKAT does not systematically assess all waiting list cases, which is not entirely satisfactory. The control could be improved by carrying out systematic risk assessments according to uniform principles.
- Spotchecks are the best way to find out whether businesses have incorrectly specified their business sector, or have used strawmen or cover addresses. Our examination showed that SKAT rarely carries out spotchecks at new businesses in connection with registration. In the NAOD's opinion, more spotchecks may serve as a deterrent, if the risk of discovery is high.

A. Organisation of business registration and control

26. The job of registering and controlling businesses applying for registration for VAT and duties was divided between E&S and SKAT with effect from July 2004.

The NAOD examined the E&S' organisation of the initial control and registration of businesses applying for VAT registration. Moreover, in connection with the registration, the NAOD examined SKAT's organisation of the subsequent tax control of the businesses. The NAOD stressed the importance of uniform and adequate control, as this will provide SKAT with a basis for assessing whether businesses can be readily approved or whether registration involves a risk. For example, this means checking whether businesses are registered for the taxes that correspond to their production, whether they are in arrears and whether they have previously been involved in economic crime. Furthermore, if VAT carousel fraud is suspected, SKAT should carry out inspection visits in connection with the registration because certain circumstances can only be identified through inspection visits.

E&S' organisation of control based on the cooperation agreement between SKAT and E&S

27. The NAOD examined whether E&S performs the control agreed upon between SKAT and E&S.

In mid-2004, E&S took over the registration of businesses from ToldSkat, as the Danish customs and tax authorities was called at the time. E&S and SKAT concluded a cooperation agreement setting out the control to be performed by the two authorities.

28. According to the agreement, businesses applying for registration must complete and file a registration form with E&S. E&S must check that the mandatory information to be provided by the businesses is stated on the registration form. E&S must check that a correct address and telephone number is provided for the business and that the business has specified one or several taxes for which it is to be registered. Furthermore, E&S carries out automatic default and risk referral which means that businesses that are in arrears for example, are transferred to a special focus list subject to detailed control by SKAT. SKAT's control of the cases on the focus list is described in paragraphs 35-41. In addition, E&S compares the different kinds of information to assess whether they correlate, for example, whether businesses stating that they employ staff have also registered for payment of tax deducted from income at source, social security contribution and the special pension contribution.

29. On the basis of the control, E&S places the cases on a focus list or a waiting list before submitting them to SKAT. As regards the cases on the focus list, E&S assesses whether SKAT should carry out further control, for example, because there is doubt about the tax liability, or because the case was automatically placed on the E&S focus list, see paragraph 28.

Our examination showed that E&S' control constitutes formal control of whether the information required is provided on the registration form. In the NAOD's opinion, the control carried out by E&S, which complies with the cooperation agreement, is satisfactory.

SKAT's control of waiting list cases

30. The NAOD has examined whether SKAT has guidelines for processing waiting list cases and whether the guidelines are followed.

31. The examination showed that SKAT, the Main Centre (formerly the Customs and Tax Administration), has notified the tax centres that they must carry out a preliminary risk assessment for all waiting list cases.

From the receipt of the applications and until they must be released, E&S and SKAT have a total of three days to process and check registration applications from businesses.

Within this time limit, SKAT has seven working hours, counted from E&S' completion of its case processing, to evaluate whether specific cases should be selected for manual case processing.

32. The tax centres have stated that the time limit of seven working hours for SKAT's assessment means there is insufficient time to systematically assess all cases, a circumstance which the NAOD finds not entirely satisfactory. The NAOD finds that the missing risk assessments may entail a risk that some businesses are being registered unlawfully. Systematic risk assessments according to uniform principles could strengthen the control and minimise the risk of unlawful registration of businesses.

33. The Ministry of Taxation has stated that SKAT's control of waiting list cases is supported by automatic default and risk referral. This means that some cases are automatically transferred from the waiting list to the focus list to enable SKAT to carry out systematic case control. Furthermore, SKAT itself may transfer cases from the waiting list to the focus list, which enables SKAT to assess the case. On average, each tax centre deals with 10-12 cases daily of new business establishments or the creation of new tax liabilities for existing businesses. Accordingly, the number of cases subject to risk assessment is not excessive.

34. The Ministry of Business and Economic Affairs has stated that systematic and general control can best be performed as part of E&S' registration and control and by automatic cross-checking with relevant SKAT registers. If the control is performed together with the arrears control today performed by E&S, it can be carried out in one work run, which will significantly improve service levels for law-abiding businesses.

In the NAOD's opinion, all cases, including those on the waiting list, should be systematically assessed to determine whether persons in the business have previously been involved in economic crime. The NAOD finds that this constitutes adequate and sufficient control, but has not considered who should be responsible for performing this assessment.

SKAT's control of focus list cases

35. The NAOD also examined whether guidelines have been drawn up for SKAT's control of focus list cases and whether the guidelines are being followed.

36. According to the guidelines, see the cooperation agreement, all cases on the focus list must be checked. The examination showed that SKAT has drawn up a general description of registration control procedures. However, the tax centres find this description too general, and some tax centres have therefore drawn up their own guidelines.

SKAT checks all cases transferred to the focus list. Our examination showed that the control performed by SKAT is not uniform and adequate. For example, SKAT does not check all cases by comparing them to SKAT's register of persons convicted of economic crime (KINFO), whether the businesses employ people who have previously been involved in economic crime and whether businesses possibly use cover addresses.

The control may be improved by making it more uniform and adequate based on SKAT's experience with risk factors, for example, the use of cover addresses and any previous involvement in economic crime.

37. The Ministry of Taxation has stated that cases are checked automatically by cross-checking them with a number of SKAT registers, but not SKAT's register of persons convicted of economic crime (KINFO), as no statutory authority to do so exists. If statutory authority was provided for automatic cross-checking with KINFO, the control could be extended to include automatic cross-checking with KINFO in all cases.

Moreover, the ministry has stated that controlling the use of cover addresses is a complex area, because it is difficult to identify and establish cover addresses without physically inspecting the address. However, SKAT intends to consider one existing systematic control option in more detail. The automatic case control could be extended to include cross-checking with a special address register of known cover addresses. If effected, this would ensure that registrations involving these addresses would be transferred to and marked on the focus list for detailed risk assessment by SKAT.

38. The NAOD finds it satisfactory that SKAT intends to consider the possibility of extending automatic case control to include cross-checking with a special address register of known cover addresses. Furthermore, the NAOD finds that SKAT should consider the possibility of obtaining statutory authority to carry out automatic cross-checking with KINFO in all cases. In the NAOD's opinion, this could strengthen the registration control as a whole.

39. The NAOD finds it satisfactory that SKAT and E&S have set up a formalised cooperation on registration control. Essentially, the authorities have three days to carry out registration and control. Accordingly, there is a need to cooperate closely and exchange information on businesses to ensure that they are not registered unlawfully.

40. Moreover, the examination showed that the legislation does not give SKAT direct access to retrieve information about persons suspected of economic crime by the police. SKAT may only approach the police with requests for information from the police registers about specific persons and companies. In each case, the police decide whether to pass on the information to SKAT.

41. In the NAOD's opinion, SKAT's registration control can be strengthened if SKAT is given the opportunity to directly cross-check the registration of all applicants with police information about persons suspected of economic crime. However, this would require an amendment of the law. The purpose is to ensure that persons whom the police suspect have committed economic crime are subjected to special in-depth control.

Local control

42. According to SKAT, several known risk factors are associated with VAT carousel fraud, such as whether the businesses are registered under the correct business sector, who in fact operates the businesses, including whether strawmen have been appointed in the businesses and whether real trading is taking place. These factors may be indicators of VAT carousel fraud. According to SKAT, the risk of VAT carousel fraud in such cases is best revealed by inspection visits.

43. The examination showed that SKAT only rarely makes inspection visits to new businesses in connection with registration. The NAOD finds that more inspection visits may serve as a deterrent if the risk of discovery is high.

The Ministry of Taxation agrees that inspection visits in connection with VAT registration may have a preventive effect on businesses visited. According to the ministry, the control should be based on an assessment of the risk of fraud and in each case on whether an inspection visit may produce conclusive new knowledge.

IV. SKAT's organisation of the control of VAT-registered businesses

The NAOD's comments

SKAT targets its control of VAT-registered businesses at detecting VAT carousel fraud, but the examination did give rise to certain recommendations.

This opinion is based on:

- SKAT's action strategy includes combat of economic crime, including VAT carousel fraud, and the strategy emphasises the importance of devoting a larger share of control resources to detecting economic crime.
- SKAT's performance requirements provide adequate incentive to check businesses that are reluctant to comply with the tax rules (opponents) and thus support the measures to counter VAT carousel fraud. The control plans for 2004 and 2005 also included control items relating to economic crime, including VAT carousel fraud, which the NAOD finds satisfactory.
- SKAT assesses on an ongoing basis which possible intermediaries should be kept under surveillance for possible VAT carousel fraud, and exchanges information regarding the businesses with the tax authorities of other Member States. SKAT has laid down guidelines for payment control and, in connection with large payments of VAT, tax centres normally carry out an in-depth audit of the businesses' financial statements to ensure that payments are made on legal basis. The NAOD finds this satisfactory.
- SKAT introduced a new selection system in 2005 which on the whole has given SKAT better opportunities for identifying businesses likely to be participating in VAT carousel fraud. However, the system is based on information

from the joint EU system "Value added tax Information Exchange System" (VIES), whose data are not always reliable and updated. Moreover, the system does not include dormant businesses. A dormant business does not declare VAT, which may indicate that the business has no activity, but may also indicate unlawful failure to declare or pay VAT. The NAOD finds that SKAT should include dormant businesses in the selection system.

- SKAT does not automatically notify businesses of discrepancies in VIES so that businesses may check up on the declarations. Automatic notification of businesses would probably improve the quality of the information. The NAOD finds that SKAT should consider developing a system which automatically notifies businesses of erroneous information submitted to VIES. However, the system should await the introduction of a new VIES.
- SKAT has set target figures for compliance with case processing time limits. However, SKAT's target figures do not include requests from the tax authorities of other countries. SKAT does not entirely satisfy the requirement of answering requests from the tax authorities of other countries within the three-month time limit stipulated by the EU. The NAOD finds that requests from other countries should be included in SKAT's target figures, which would provide a greater incentive to answer such requests within the time limit.

A. Performance requirements, strategy and plans for control

44. The NAOD has examined whether SKAT's strategy, performance requirements and plans for control of VAT-registered businesses are targeted at detecting VAT carousel fraud. If SKAT's strategy, performance requirements and plans are not targeted at also detecting VAT carousel fraud, there is a risk that the action is not being prioritised as part of the general tax centre control.

Strategy

45. The NAOD has examined whether SKAT's strategy includes combat of economic crime, including VAT carousel fraud.

In early 2004, SKAT introduced a new strategy for control, information and guidance, the so-called Action Strategy. The basic assumption of the strategy is that the majority of citizens and businesses liable to tax comply with the

tax rules. Accordingly, the initiative should be differentiated and adapted to their ability and willingness to comply with the rules. The strategy divides those liable to tax into co-players and opponents.

The NAOD's examination of the strategy shows that it highlights the importance of devoting a larger share of resources to detecting economic crime. At the same time, according to the strategy, SKAT must implement more comprehensive control measures in the form of ongoing monitoring and more in-depth and physical control of businesses suspected of economic crime. The strategy encompasses combat of economic crime, including VAT carousel fraud.

46. The examination showed that the strategy generally treats newly registered businesses as co-players and that the measures taken in relation to newly registered businesses are primarily based on dialogue, information and guidance, as well as ad hoc service visits. Thus, the business is normally not checked during the first two years.

47. SKAT has developed a standard for service visits to newly established businesses. The outcome of the visit may be collection of factual information about the business, for example, with a view to further tailoring SKAT's service visits.

Any additional service visits are for guidance and will typically include some of the same elements as the service visit to a newly established business. The visit may take place at the business' or SKAT's initiative. The visit will typically be aimed at solving a specific problem the business may have, for example, in relation to application of various electronic solutions. As a main rule, the visit will therefore require fewer resources than a service visit to a newly established business.

Accordingly, SKAT predominantly pursues a service approach in relation to new businesses and has pointed out that observations made during service visits may be included as selection criteria for subsequent control.

48. The NAOD finds that in some cases, service visits to newly registered businesses may give rise to subsequent control on the basis of the observations made during the visit and that this may lead to detection of VAT fraud. How-

ever, service visits offered to new businesses are not always appropriate for detecting fraud. This is because businesses involved in fraud will normally not ask for a service visit. Finally it is noted that service visits are not carried out for control purposes, but to provide the guidance and information that the business needs. The measures to counter VAT carousel fraud could therefore be improved by checking businesses immediately after registration on the basis of an evaluation of materiality and risk.

49. The Ministry of Taxation has stated that control of new businesses is carried out on the basis of, for example, service visits and SKAT's VAT risk assessment system. Furthermore, SKAT has developed a new selection system to strengthen the measures to counter serious VAT fraud. Accordingly, in SKAT's opinion, the measures taken in relation to newly registered businesses are balanced both in terms of the balance between control and service and in relation to ensuring that new businesses to the greatest possible extent comply with the tax and fiscal acts.

50. The NAOD agrees that SKAT's new selection system has improved the selection of businesses. The system is described in detail in paragraphs 57-60.

The NAOD is of the opinion that service visits cannot be used in all cases to detect VAT carousel fraud, partly because they are voluntary and partly because they have no actual control purpose. Finally, the NAOD finds that risk factors relating to VAT carousel fraud are best detected by inspection visits.

Performance requirements

51. Control of businesses committing VAT carousel fraud is often resource-demanding because the control always involves several businesses and exchange of control information with other countries' tax authorities. If the performance requirements do not make allowance for such controls, it is uncertain whether priority is given to control.

52. SKAT introduced a new performance requirement system in 2005 as a result of the new Action Strategy. The performance requirement system is based on the setting of performance requirements for the control, information and

guidance provided by the tax centres. The tax centres are scored according to the type of control they perform. SKAT distinguishes between four types of control according to the depth and level of detail of the control. The more in-depth and comprehensive the control, the higher the score. In addition, the centres are scored according to the type of business controlled. Control of businesses that are opponents and likely to commit economic crime, including VAT carousel fraud, gives higher control scores than control of businesses considered co-players.

The tax centres themselves may organise and plan the control on the basis of materiality and risk within the limits of the number of controls to be performed for each of the four types of control.

53. In the NAOD's opinion, the performance requirement system gives satisfactory incentives to control opponents and thus supports the measures to counter VAT carousel fraud.

Control plans

54. SKAT's control plans specify the control to ensure it is performed consistently across the tax centres. Moreover, the control plans commit the centres to carrying out control and analyses of specific subjects, so-called mandatory control subjects. The NAOD examined whether SKAT's control plans include control subjects relating to VAT carousel fraud.

55. SKAT's control plans for 2004 and 2005 included mandatory control subjects related to economic crime, including VAT carousel fraud. The tax centres thus carried out analyses and control of scrap dealers, where some businesses have been involved in VAT carousel fraud. The control included control of consignments particularly of copper and brass, traded several times between businesses in various countries. Furthermore, the tax centres checked businesses participating in VAT carousel fraud with businesses outside the EU. The control was carried out as a concerted control action with the tax authorities of other Member States. The purpose was to map out the businesses' trading and mutual connections.

In addition, some centres have participated in a special type of control since 2005, which registers the product code

of imported mobile phones in SKAT's systems. Then, by comparing the scanned-in product codes with new imports of mobile phones, SKAT has been able to check whether the same mobile phones were re-imported and thus formed part of VAT carousels.

56. The examination showed that SKAT's control plans included mandatory subjects related to VAT carousel fraud. The NAO finds this satisfactory.

B. Data for risk assessment of businesses

57. The NAO has examined whether SKAT has data at its disposal to enable it to identify risky businesses.

58. The examination showed that SKAT has access to information enabling it to identify risky businesses. The information forms part of a new selection system which SKAT has used since 2005. The selection system includes new businesses and businesses whose VAT-liable turnover fluctuates significantly. The system, based on data from several SKAT systems, provides a basis for selecting businesses with a potential for VAT carousel fraud, but cannot be used to specifically identify businesses having committed VAT carousel fraud.

Moreover, the system does not include so-called dormant businesses. A dormant business does not declare VAT which may indicate that the business has no activity, but may also indicate unlawful failure to declare and pay VAT. If the system also included dormant businesses, risk assessments and control of VAT carousel fraud could be strengthened.

59. The Ministry of Taxation agrees that the selection system cannot be used to specifically identify businesses involved in VAT carousel fraud. The ministry has stated that the system is subject to ongoing development and is currently being extended to include risk assessments which are matched with actual VAT carousels. This is supposed to make the selection of businesses involved in VAT carousels even more efficient and targeted. The ministry has also stated that efforts will be made to include dormant businesses in the selection system.

60. The NAOD finds it satisfactory that the selection system is being developed and adapted on an ongoing basis, and that SKAT will consider the possibilities of including dormant businesses in the selection system.

Value added tax Information Exchange System (VIES)

61. The selection of businesses is also based on information retrieved from the common EU system VIES, which the Member States have used since the introduction of the single market in 1993. The single market abolished intra-Community border control, integrating it in the Member States' general VAT control. The Member states therefore needed a tool to compare and check domestic businesses' import and export declarations with the information provided by foreign businesses. The system enabled control of imposition of VAT on imported and exported VAT-exempt goods in the country in which the goods were to be consumed. Another purpose of VIES was to give businesses trading with businesses in other Member States the opportunity to confirm the trading partner's VAT registration number.

62. On the basis of VIES, SKAT can compare Danish businesses' VAT returns with the information provided by foreign businesses having traded with Danish businesses. The information is based on the data submitted by the businesses. Through control of this information, SKAT must ensure that Danish businesses report to the system in connection with VAT-exempt sale of goods in the EU.

63. The tax centres have stated that businesses do not always report correctly to VIES and that time lags may occur in the businesses' registration of transactions. This means that there may be great discrepancies between the VAT returns filed by the businesses and the VIES information.

In addition, the NAOD established that it takes at least three months and in some cases up to six months from the time a transaction took place until the information is available in VIES. The delay means that in some cases, the information on which SKAT bases its selection of businesses is not up to date.

64. Given the present system, the NAOD finds that basing the selection of businesses on data from VIES entails a

risk, because the data are not always reliable and updated. Fraudsters may thereby gain a lead and, for example, get assets out of the way or disappear themselves before SKAT becomes aware of the fraud.

However, the NAOD finds that overall, the new selection system has provided SKAT with better opportunities to identifying businesses involved in VAT carousel fraud.

65. The Ministry of Taxation has stated that a new VIES is in the course of preparation. EU authorities are considering reducing the period within which businesses are required to file returns from three to two months and the settlement period from three months to one month. This will limit the time that elapses from the time a transaction takes place until the information becomes available in VIES. It is still uncertain, however, whether the new system will entirely solve the problems associated with the present VIES. In addition, the changes should make allowance for the fact that today businesses have varying declaration and settlement periods and a reduction hereof will impose higher administrative burdens on the business community.

Moreover, the Ministry of Taxation has stated that SKAT has joined the so-called EUROCANET, a network of Member States exchanging information on VAT carousel fraud. EUROCANET supplements VIES and allows faster bilateral exchange of selected data between the countries.

66. The NAOD finds that a reduction of businesses' settlement and declaration periods will enable faster control and thus improve the likelihood of securing government revenues. The NAOD also finds it satisfactory that SKAT has joined EUROCANET.

C. Organisation of control measures

SKAT's organisation of the control of businesses reclaiming VAT

67. The NAOD has examined whether SKAT has guidelines for payment control and whether SKAT follows the guidelines when carrying out the control. Businesses buying goods that are resold to an enterprise in another Member State can basically deduct the VAT paid when purchasing the goods (input VAT). This follows from the EU VAT system.

Payment control is the tax centres' way of controlling the businesses' financial statements and ensures that VAT repayments are made on a correct basis. Repayment control is essential because it may alert SKAT to the non-payment of VAT in earlier links, which may be an indication of VAT carousel fraud.

68. The examination showed that SKAT has guidelines for the organisation of repayment control. Accordingly, the scope and depth of the control is organised to take account of the amount reclaimed, whether the business has been in arrears and when the business was previously checked. Moreover, some tax centres have drawn up lists of factors that should give cause for special attention in the course of the control, for example, rounded and atypical amounts declared and special business sectors.

In order to target the control measures, SKAT has drawn up a special control concept for businesses which only carry on export and currently reclaim VAT within a reduced settlement period of one month.

69. The NAOD has reviewed a spotcheck of major payment cases in two tax centres. The examination showed that the tax centres followed the control guidelines. In connection with major VAT payments, an in-depth audit of the businesses' financial statements is normally conducted to ensure that payments are made on a legal basis. In addition, the tax centres check that the VAT reclaimed was paid by the businesses in earlier links, which is essential for detecting VAT carousel fraud. The NAOD finds this satisfactory.

Organisation of the control of VAT carousel intermediaries

70. The NAOD examined whether SKAT keeps under surveillance businesses known to have been involved in VAT carousel fraud.

71. On the basis of VAT carousel fraud cases and information provided by tax authorities in other countries, SKAT, the Main Centre, has become aware of a number of Danish businesses used as intermediaries in VAT carousel fraud cases. The Danish government suffers no loss of VAT in these cases, but SKAT has stated that these businesses may

commit VAT fraud themselves at some stage if SKAT does not keep them under constant surveillance. According to SKAT, the intermediaries are in some cases conscious of being involved in VAT carousel fraud.

72. The examination showed that SKAT regularly considers which intermediaries to keep under surveillance for possible VAT carousel fraud. It exchanges information with the tax authorities of other Member States as the information may be relevant for detecting VAT carousel fraud in other Member States. The surveillance also has a preventive effect and may deter businesses from engaging in VAT fraud. The NAOD finds this satisfactory.

Organisation of the control of businesses' provision of information to VIES as part of the VAT control

73. The NAOD examined whether the tax centres check the information businesses submit to VIES. The NAOD finds that the tax centres should check whether the information submitted to VIES is correct. Moreover, the NAOD examined whether SKAT is authorised to impose sanctions on businesses submitting erroneous information.

74. Since 1993, SKAT has been ordered to check intra-Community purchases and sales of goods by VAT-registered businesses. The EU have no rules stipulating the share of businesses engaging in intra-Community trade to be checked. For the businesses selected for control, average control procedures should include control of 14 questions regarding the businesses' import and export of goods, including accounting and physical controls. The purpose of the control is to ensure that imported and exported VAT-exempt goods are subject to VAT in the country in which they are consumed. VIES is used for this purpose, see paragraph 61.

75. The examination showed that several tax centres have reported an erroneous number of controls per business. Accordingly, tax centre reports and their fulfilment of the control requirements are subject to some uncertainty. Ongoing internal control by SKAT of whether the reporting is correct will provide a better basis for follow-up on the control.

76. The Ministry of Taxation agrees that it is important that the data reported by businesses to VIES are correct so that foreign tax authorities can use and rely on the data immediately in their control procedures. SKAT will establish internal control procedures as soon as possible to ensure compliance with the requirements for tax centre control of data reported.

The NAOD finds this satisfactory.

77. The examination also showed that sanctions are not imposed on businesses reporting erroneous information. If SKAT automatically notified businesses of discrepancies in VIES to allow them to check up on reported information, the quality of the information could probably be improved. In addition, the use of sanctions for repeated erroneous reporting, fines for example, could help ensure better data quality.

78. The Ministry of Taxation has stated that a system which automatically notifies businesses of discrepancies in VIES can probably be developed. However, such a system should await a new VIES. The ministry has also stated that fine rates have not been adjusted since 1985, so the level of fines is relatively low. In 2005, the Director of Public Prosecutions authorised a general fine rate adjustment in the SKAT area, which means that SKAT will announce a general fine rate adjustment in autumn 2006. After the introduction of new fine rates, SKAT will be able to institute test proceedings before the courts in order to obtain precedents regarding fines in cases where businesses have persistently provided false or incomplete information to VIES.

79. The NAOD finds that SKAT should consider developing a system which automatically notifies businesses of erroneous reporting to VIES. The NAOD also agrees that it will be appropriate to await the introduction of a new VIES. The NAOD finds it satisfactory that SKAT is planning to adjust the fine rates as a basis for instituting test proceedings before the courts.

D. Cooperation with foreign authorities

80. SKAT exchanges information with the tax authorities of other Member States when the authorities suspect VAT

carousel fraud. The NAOD has examined whether SKAT complies with the time limits for exchange of information stipulated by the EU regulations for Member State cooperation.

81. Under EU regulation No. 1798/2003 on administrative cooperation between the Member States, the tax authorities of the relevant Member States may request information from other tax authorities for the purpose of control of businesses and persons. The information must be provided as quickly as possible and within three months of receipt of the request. In Denmark, the Control Office of SKAT's Main Centre is the competent authority for exchange of information regarding economic crime, including VAT carousel fraud.

82. The examination showed that well over 20% of all requests for control information between SKAT and foreign tax authorities are not answered within the time limit. According to SKAT, the reason for the failure to answer all requests within the time limit may be lengthy case processing, but also lack of opportunity to contact the businesses.

The examination also showed that SKAT has set target figures for compliance with case processing time limits, but requests from the tax authorities of other countries are not included in these target figures. If the target figures also included requests from the tax authorities of other countries, SKAT would have a greater incentive to answer these requests within the three-month time limit fixed by the EU.

83. The NAOD finds that the time factor is crucial in these cases, if the Member States' loss of VAT receipts is to be minimised. It is therefore important that time limits are complied with if the combat of VAT carousel fraud is to be strengthened.

The Ministry of Taxation has stated that technically, there is nothing to prevent economic crime requests from being included in the target figure. However, this needs to be agreed with the Ministry of Finance, because SKAT's targets on the Finance and Appropriation Act are generally negotiated with the Ministry of Finance.

V. SKAT's cooperation with the police and the prosecution service on VAT carousel cases

The NAOD's comments

The case processing regarding VAT carousel fraud cases is satisfactory. Over the past few years, SKAT, the police and SØK have taken steps to strengthen the cooperation between the authorities, incorporating the experience gained from VAT carousel cases on an ongoing basis to strengthen control and investigation. However, the authorities' consideration of VAT carousel cases can be further improved, for example by better organisation of the case processing.

This opinion is based on:

- In 2005, SØK and SKAT set up a task force to strengthen the measures to counter VAT carousel fraud and other offences. The initiative has resulted in several recommendations regarding cooperation between authorities and new methods to be applied, including the preparation of risk profiles.
- As part of the competency development, the experience gained from VAT carousel cases has also been incorporated in courses and supplementary training for the staff performing the control and investigation, which the NAOD finds satisfactory.
- The examination showed that the average case processing time for VAT carousel cases is three months for SKAT and 22 months for the police/SØK. The average case processing time reflects that the processing of some cases has been extremely lengthy, whereas in other cases, it has been short.
- The case processing has partly been influenced by external circumstances beyond the authorities' control and partly by the authorities' own organisation of the case processing. In the following, the NAOD highlights the factors which authorities can influence themselves.
- SØK, the police and SKAT have not set targets and time frames for the case processing of all cases. Besides, it has not always been made clear from the start which competencies are necessary to ensure that progress is made, which may cause cases to drag on. The NAOD finds that SØK, the police and SKAT should in all cases clarify from the start which competencies are necessary to ensure that progress is made in the cases. This can be done by organising the cooperation in joint project groups in order to incorporate all relevant competencies. More-

over, case processing targets and time frames should be set. The Ministry of Justice has stated that project-oriented work is now established practice in SØK and that targets and performance requirements will be set to help facilitate fast and efficient case processing.

- Our review also showed that only in a few cases was the prosecution service involved from the start. The NAOD finds that the cases should be further promoted by involving the prosecution service from the start of a case, so that it may contribute to ensuring that the legal aspects of a case are considered at an early stage. The Ministry of Justice has stated that an early initiative by the prosecution service is now established practice in SØK.
- The Ministry of Justice has pointed out that amendments to the Danish Administration of Justice Act concerning the processing of economic crime cases will provide for faster trial. Furthermore, the new police reform is expected to expand and maintain the special police competencies and routines required for economic crime cases, which will also strengthen the counter-measures.

A. Case processing

84. According to section 289 of the Danish Penal Code, serious economic crime cases, including VAT carousel fraud cases, must be reported to the police for further investigation. In 1998, SKAT and SØK agreed on a pre-assessment arrangement for cases entailing a risk to EU revenue and expenses, which means that SKAT is to report the cases to SØK, which then assigns the cases to the responsible police district.

85. The NAOD has examined the time spent on the 15 carousel cases which SKAT and the police/SØK have investigated since 2000. The NAOD finds that the case processing time should be as short as possible and that the measures taken should have a preventive effect.

86. The examination showed that the average case processing time for VAT carousel cases is three months for SKAT and 22 months for the police/SØK, see appendix 2. The average case processing time reflects that the processing of some cases has been extremely lengthy, whereas in other cases, it has been short.

On top of this comes the courts' case management time. The courts have tried five of the 15 cases. The average case management time was six months for these cases, of which one has been appealed and remains pending before the courts.

87. The examination showed that case processing was influenced by SØK's and the police's own organisation of the processing. More than half of the cases changed prosecutor during the process, and only in a very few cases was the prosecution service involved from the start. According to the authorities, failure to involve the prosecution service from the start may cause cases to drag on. In one case, the police stated that the case was managed inadequately and not followed up, which delayed the case.

88. The NAOD finds that the cases may be further promoted by involving the prosecution service from the start of a case, so that it can contribute to ensuring that the legal aspects of a case are considered at an early stage.

89. The Ministry of Justice has stated that in some cases, replacing the prosecutor will be unavoidable, for example, due to illness, change of job and other circumstances. This is not in itself a problem if it is ensured that the periods during which no responsible tax consultant is attached to the case are minimised.

90. The NAOD agrees that in several cases, the prosecutor will inevitably have to be replaced during the processing of a case. The NAOD therefore finds it important that continuity in the case processing is ensured so that, for example, if the prosecutor is replaced, the cases continue to make progress.

91. The lengthy duration of the cases may also be due to circumstances beyond the authorities' control. Thus, the police and SØK only have limited influence on the delay between issue of proceedings and the trial. Similarly, the actual trial also depends to a considerable extent on parties other than the prosecution service. For example, in some cases, the counsel for the defence is replaced during the proceedings, which may cause delay. Similarly, cases are some-

times delayed because information from foreign police authorities has to be obtained, and in some cases the persons involved have disappeared. However, in order to reduce the delays arising from having to contact foreign police authorities, the police and SØK could gain an overview of the information required and prepare information requests at an early stage in the process.

Finally, cases are delayed because requests for control information between the tax authorities of the Member States are not always answered within the time limits fixed, see paragraph 82. In addition, a new type of case involving countries outside the EU has in some instances rendered the collection of information difficult, both for the tax authorities and the police investigation.

Organisation of case processing

92. The NAOD examined whether SKAT, the police and SØK cooperate to make use of each others' competencies. The NAOD also examined whether targets and time frames have been set for VAT carousel cases. The NAOD finds that targets and time frames for the progress of a case may help to alert authorities to the need to promote the case processing. It was also examined whether it had been clearly defined from the start which professional competencies were required in the specific case.

93. The examination showed that the authorities use each others' competencies in VAT carousel fraud cases. SKAT involves the police before reporting the offence in order to coordinate the control with the ongoing investigation. Moreover, the police involved SKAT in the investigation on almost every occasion in order to take advantage of SKAT's tax and accounting competencies. These competencies are necessary because part of the investigation includes analyses of complicated financial transactions between businesses.

In addition, the examination showed that the cooperation in the majority of cases was based on informal contact. SKAT and the police have stated that the informal contact was important to ensure progress in the cases.

94. The examination further showed that the police and SØK had set targets and time frames for ten out of 15 cases. SKAT generally did not set targets and time frames for the

VAT carousel cases, because SKAT generally reports the cases to the police early in the process, typically within the first two months. From that point in time, the prosecution service assumes responsibility for managing the case. Furthermore, the NAOD established that in about half of the cases, SKAT, the police and SØK defined from the start which competencies were necessary for the case processing. This was done by setting up joint project groups.

95. SØK and the police have stated that cases drag on if targets and time frames for the case processing are not set and if it is not made clear from the start which competencies are necessary to ensure that progress is made.

96. In the NAOD's opinion, the cooperation between the authorities can profitably be organised in joint project groups so that all relevant, professional competencies can be incorporated from the start. It is moreover important to set case targets and time frames.

97. The Ministry of Taxation agrees that SKAT, the police and SØK should to a greater extent organise their cooperation on VAT carousel fraud cases and other economic crime in joint project groups. This work has been initiated tentatively through the joint SKAT/SØK project group on VAT carousel fraud. The project model will be evaluated on an ongoing basis and SKAT will focus on expanding the model to local offices when the new police reform is introduced.

98. The Ministry of Justice has stated that for some time, SØK has used a project-oriented approach based on the new investigation model. The police are also generally implementing a more project-oriented investigation process, involving investigators and prosecutors from the outset. In addition to this, there is special focus on safeguarding case management through ongoing evaluation.

The Ministry of Justice has stated that an important issue in VAT carousel fraud is rational use of resources, partly in relation to the subject-matter, partly in relation to persons involved. The ministry expects that the implementation of a new structure for the police and the prosecution service with fewer police districts and the establishment of special prosecution services with prosecutors who can build up ex-

perience in special case categories will further improve the basis for rational use of resources. In this connection it will be necessary to make an overall evaluation of the use of police and prosecution service resources by weighing the likely result of the efforts in several crime areas against each other.

99. The NAOD finds it satisfactory that the authorities are making increasing use of project-oriented investigation processes. In future, authorities should organise cooperation on a project-oriented basis for all major serious crime cases. The NAOD also notes that the Ministry of Justice points out that a new police and prosecution service structure will improve the possibilities of ensuring rational use of resources in connection with the cases.

100. The NAOD also examined whether the experience gained by the authorities in VAT carousel cases is incorporated on an ongoing basis in the control and investigation of VAT carousel fraud. Failure to do so entails a risk that the necessary competencies will not be developed and that the way the control is organised will not reflect the development in VAT carousel fraud.

101. The examination showed that SKAT, the police and SØK have incorporated the experience from VAT carousel cases to provide a better basis for control and investigation. This has been done by developing the competencies of the employees who carry out the control and investigation by continuously organising training and courses on economic crime. The NAOD finds this satisfactory.

102. In 2005, SKAT and SØK set up a unit, a so-called taskforce aimed at strengthening the measures to counter serious VAT carousel fraud. The unit applied the experience from three VAT carousel cases reported to the police in 2004 and 2005.

The unit has made a number of recommendations, including that on the basis of the existing VAT carousel cases, a risk profile must be developed to enable the authorities to quickly identify businesses likely to participate in VAT carousel fraud. At the same time, a model for the authorities' cooperation in the form of an activity and information

flow has been established to enable authorities to quickly exchange information about suspects.

The NAOD finds it satisfactory that the authorities have taken this initiative which, according to the authorities, will strengthen the measures to counter VAT fraud.

103. Furthermore, the experience gained has led to amendments to the Danish Administration of Justice Act on the processing of major economic crime cases. The amendments are the result of the work of the so-called Brydensholt Committee. SØK has indicated that the amendments enable swifter trial because, for example, the reading aloud of documents in the court may be omitted and because the cases may already be set down for trial when the indictment is filed.

In addition, the Ministry of Justice has stated that the new police reform is expected to expand and maintain special competencies and the routines required for complex cases such as economic crime cases, which is also expected to strengthen counter-measures. In connection with the new structure, a number of targets and performance requirements will be set centrally, which will further help ensure swift and efficient case processing.

104. Finally, the Ministry of Justice has stated that the NAOD's recommendations are now established practice in SØK, including project-oriented work and early action by the prosecution service.

The NAOD finds this satisfactory.

The National Audit Office of Denmark, 20 September 2006

Henrik Otbo

/Henrik Berg Rasmussen

Appendix 1

VAT and VAT carousel fraud

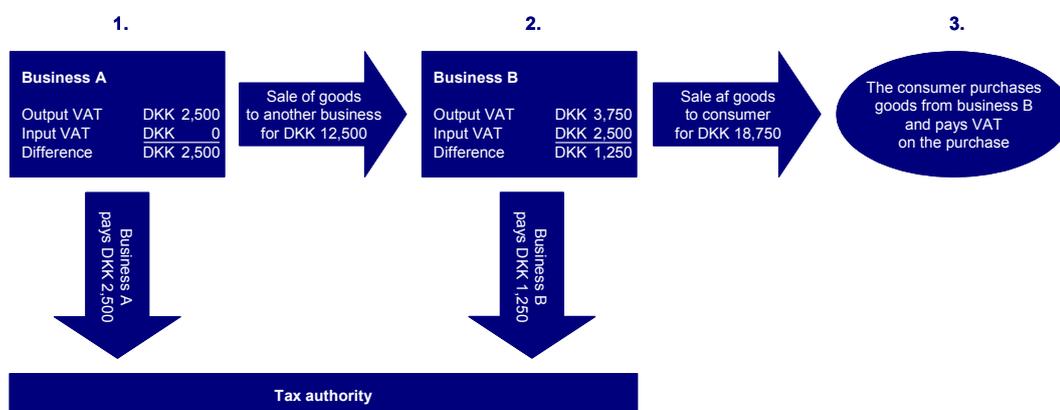
VAT

1. Commercial supplies of goods and services in Denmark are subject to VAT according to the VAT Act, see Consolidation Act No. 966 of 14 October 2005 as amended. This means that in connection with the sale of goods and services, a 25% tax on the price is payable to the government. This is referred to as output VAT.

Businesses may deduct VAT on goods and services purchased for the business if they are used for its production or for re-sale. This is referred to as input VAT. A business' VAT settlement is thus the difference between its output VAT and input VAT.

2. **Figure 1** illustrates the VAT settlement of a business (business B) purchasing goods from another business (business A) for the purpose of re-sale. The VAT settlement is illustrated in the following examples.

Figure 1. The VAT settlement principle

**Business A**

The figure shows that business A sells goods for DKK 10,000 to business B (exclusive of VAT). The output VAT of DKK 2,500, equal to 25% of the price of the goods, is added to the price. This example assumes that business A did not purchase the goods inclusive of VAT and therefore cannot deduct input VAT from the output VAT. The business' overall VAT settlement is illustrated below.

VAT account for business A	DKK
Output VAT	2,500
Input VAT	0
Paid to the tax authority	2,500

Business B

Business B, having purchased the goods for DKK 12,500 from business A, paid VAT of DKK 2,500 to business A. This constitutes business B's input VAT. Business B re-sells the goods to consumers for DKK 15,000. VAT of 25% is added to the price, and the total price now amounts to DKK 18,750. Business B must settle output VAT of DKK 3,750 less input VAT of DKK 2,500 to the tax authority. The business' overall VAT settlement is illustrated below.

VAT account for business B	DKK
Output VAT	3,750
Input VAT	2,500
Paid to the tax authority	1,250

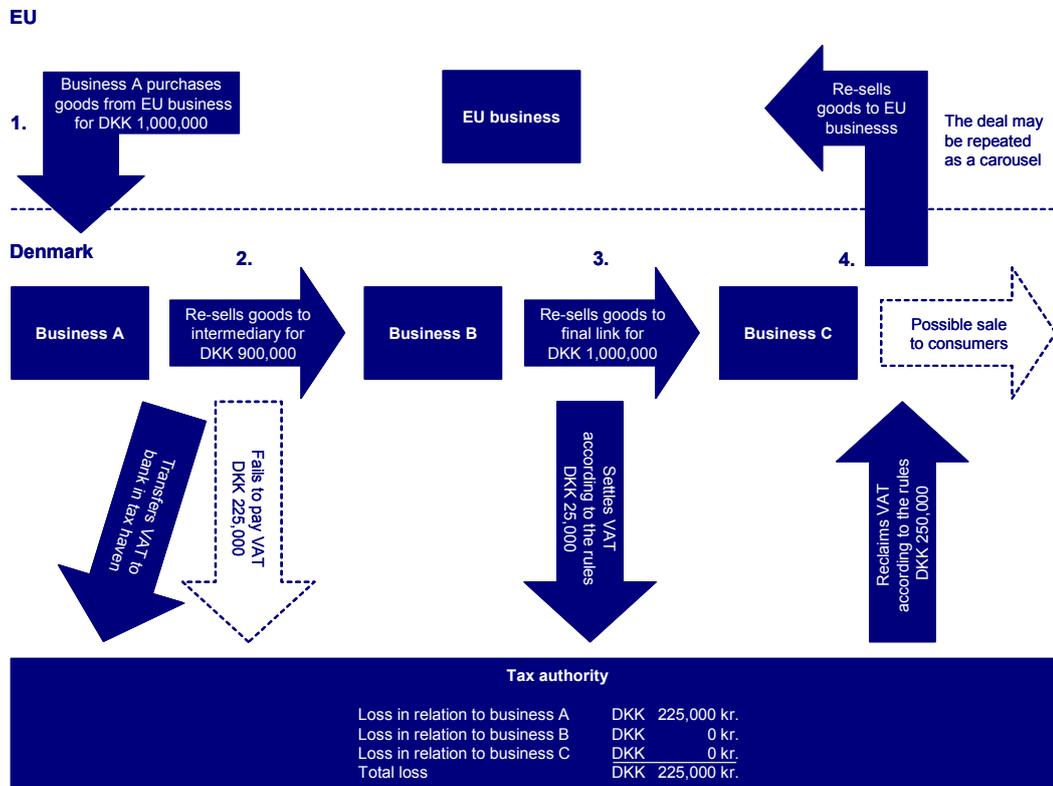
3. The example shows that VAT is a tax imposed on each link in sales chain from manufacturer to consumer and that VAT is settled with SKAT as the difference between output VAT and input VAT. Consequently, VAT is a value added tax calculated on the basis of businesses' profits. Because businesses merely add the VAT to the price of the goods, it is the consumers who ultimately pay the VAT. VAT is therefore also an excise tax.

VAT carousel fraud

4. When the single market was established in 1993, Member States introduced a VAT system to facilitate intra-Community trade. The VAT system meant that import and export of goods from one Member State to another was to be VAT-exempt. VAT is not payable until imported and exported goods are re-traded in the country of consumption in compliance with national VAT rates. The EU VAT system therefore constitutes an exemption from VAT liability.

5. The EU VAT system enables businesses to engage in the so-called VAT carousel fraud. **Figure 2** illustrates the basic structure of VAT carousel fraud.

Figure 2. The VAT carousel fraud principle which results in loss of VAT for the Danish government



Business A

The figures shows that business A imports goods from a foreign seller. Business A does not pay VAT on imported goods in compliance with the EU VAT system. Business A re-sells the goods to business B and collects VAT from business B in connection with the re-sale. According to the VAT rules, business A must settle output VAT in connection with the re-sale of goods to business B. Instead of settling the VAT, business A transfers the money to a bank in a country, for example, outside the EU, in which the tax authorities cannot readily seize the funds. The business' VAT account can be illustrated as follows:

VAT account for business A	DKK
Output VAT	225,000
Input VAT	0
Amount payable	225,000
Actual amount paid	0
Loss to the government	225,000

Business B

Business B is merely an intermediary and settles VAT according to the rules. The intermediary may have been inserted in the carousel to cover up the fraud or may form part of the carousel, in the belief that the transaction is lawful. The business' VAT account can be illustrated as follows:

VAT account for business B	DKK
Output VAT	250,000
Input VAT	225,000
Amount payable	25,000
Actual amount paid	25,000
Loss to the government	0

Business C

Business C, purchasing the goods from business B, re-sells the goods to a foreign company and in this connection can reclaim input VAT. The business' VAT account can be illustrated as follows:

VAT account for business C	DKK
Output VAT	0
Input VAT	250,000
Amount reclaimed	250,000
Actual amount received.....	250,000
Loss to the government	0

6. The government's total loss amounts to DKK 225,000, being the loss of VAT relating to transactions between businesses A, B and C. Repeating the transactions by passing the goods between businesses in individual Member States, hence the name VAT carousel, before possibly selling them to consumers, generates the loss several times and results in substantial losses to the government.

7. The most recent form of VAT carousel fraud takes place through businesses outside the EU. The VAT carousel fraud principle is unchanged, and the transaction results in the same VAT loss as illustrated in figure 2. The unusual feature of the transaction is that the businesses do not refrain from declaring the VAT payable to the tax authorities, but the VAT is used as prepayment for the next supply of goods. When the VAT falls due for payment, the goods to be re-sold and against which the VAT has apparently already been used as prepayment fail to arrive.

8. **Table 1** outlines the businesses' VAT accounts and the government's loss of VAT.

Table 1. Outline of the businesses' VAT accounts and the overall loss to the government

	VAT account for business A	VAT account for business B	VAT account for business C
	---- DKK ----		
Output VAT.....	225,000	250,000	0
Input VAT	0	225,000	250,000
Amount payable/reclaimed ¹⁾	225,000	25,000	250,000 ²⁾
Actual amount paid.....	0	25,000	-250,000
Loss to the government.....	225,000	0	0
¹⁾ Under normal circumstances, the sum of the businesses' VAT settlements will not be 0, but because the businesses sell the goods below the market price, there is formally no added value.			
²⁾ The table shows that business C can reclaim DKK 250,000 from the government/SKAT.			

Appendix 2

SKAT, police and SØK processing time for VAT carousel cases¹⁾

	SKAT case processing time from the date the case is opened until it is reported to the police/SØK ²⁾	Police/SØK processing time from the date SKAT reports the case until the case is submitted for trial
	----- Months -----	
Case No. 1	1.0	25.0
Case No. 2	1.0	50.5
Case No. 3	2.0	> 54.0 ³⁾
Case No. 4	4.5	48.0 ⁴⁾
Case No. 5	2.0	24.0
Case No. 6	11.0	20.0 ⁴⁾
Case No. 7	1.5	> 19.5 ^{5) 6)}
Case No. 8 ⁷⁾	24.5 ⁴⁾
Case No. 9	5.5	> 16.0 ⁵⁾
Case No. 10	0.5	> 14.5 ⁵⁾
Case No. 11	0.0 ⁸⁾	6.5
Case No. 12	2.0	4.5
Case No. 13	0.5	7.5 ⁴⁾
Case No. 14	2.0	10.0 ⁶⁾
Case No. 15	2.0	3.5

¹⁾ In the cases where processing has not been completed (marked with >), the case processing time was calculated at 9 August 2006, when this list was prepared.

²⁾ In those cases where the authority merely stated the month in which the case was opened, but not the actual date, the first day of the month has been used as the calculation basis.

³⁾ The case is still pending with the police/SØK, because extradition of the suspect from the country of residence has not been possible.

⁴⁾ The charge has been withdrawn. Accordingly, the case has not been tried by the courts.

⁵⁾ The case remains pending with the police/SØK and, accordingly, has not been tried by the courts. The case processing time is stated as the time spent so far by the police/SØK (marked with >).

⁶⁾ Case processing by the police/SØK was not commenced as a result of SKAT reporting the offence but at SØK's own initiative and after the Attorney to the Danish Government reported the offence. In both cases SKAT has subsequently reported the offence to the police/SØK. In these two cases, the case processing time has been calculated from the time at which the police/SØK themselves opened the case.

⁷⁾ The case originates from SØK, and SKAT was not involved.

⁸⁾ A case processing time of less than eight days is stated as 0 months.