

Scrap and secondary

Old story VAT fraud is a decreasing problem in Europe, but will likely continue in emerging markets

BIR confident EU reverse charge system will cut VAT fraud in scrap markets

LONDON
BY MARK BURTON

The Bureau of International Recycling (BIR) is confident that a simplified system for collecting VAT on scrap metal sales will spur a decline in VAT fraud within the EU, the organisation's director general told Metal Bulletin.

The reverse-charge VAT collection system is designed to limit the risk of VAT fraud by making the buyer of scrap accountable for VAT, rather than the supplier.

It thereby closes potential loopholes created when metals are traded in a chain to exploit differences in VAT rates in individual EU countries, director general Francis Veys told Metal Bulletin on Tuesday January 22.

His comments followed the recent discovery of a €20 million scrap metal VAT fraud perpetrated by a 14-person gang operating in Hungary, the Czech Republic and Slovakia. While those countries have adopted the reverse-charge system,

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the gang was able to exploit innocent buyers in countries such as the UK which have not adopted it, Metal Bulletin understands.

"The interesting thing about this recent case is that VAT fraud isn't a growing problem, it's decreasing, at least in the EU. VAT fraud itself is a very old story and it's a problem that's mainly applied within Europe," Veys said on Tuesday.

BIR daughter organisation Eurometrec began lobbying DG Taxud, the EU's taxation and customs directorate, to tackle the issue about a decade ago, he said.

"The simple solution is to suspend the application of VAT on scrap, but the European Commission decided that it could not do that because VAT is very much a national tax issue and a good way for individual member states to raise cash. For that reason, VAT varies from one country to another and it's very difficult politically to impose a common rate," he said.

"Instead the European Commission decided to encourage a new system called the reverse charge system, which has been adopted pretty much everywhere but the UK. The idea is that in the chain between the collector of scrap and the end buyer, VAT is only paid in the final step, between the final seller and buyer," he added.

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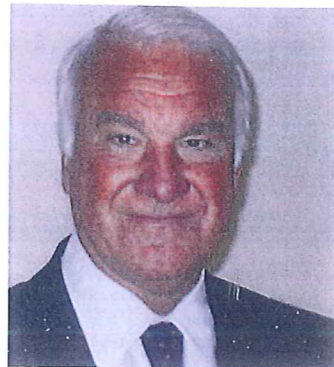
become less and less of a problem," he said.

Last year the British Metals Recycling Association said its members were being targeted in so-called missing person VAT scams as a result of the UK's failure to adopt the reverse-charge system.

Other forms of fraud persist

While VAT fraud might one day become a legacy issue within the EU as a result of the system, the BIR will nevertheless remain busy tackling the problem in emerging markets such as Latin America, where cases have been reported in Mexico and Chile, Veys said.

It will also continue to lobby against other forms of fraud within the EU through partnerships with organisations such as the International Maritime Bureau (IMB).



In recent weeks the organisation has received several reports of cases where scrap metal cargoes have been offered by criminals claiming to represent legitimate and trusted trading companies.

"One strategy seemed to be the creation of a new website with a domain name similar to that of the genuine company, featuring its contact details but with different telephone numbers," the BIR said.

"In the meantime the IMB found out that at least one of these numbers was used for multiple companies and that email communications allegedly sent from a UK-based company were actually generated in Nigeria," the BIR added.

The organisation urges its members to report any suspicious offers for scrap to the IMB.