

## Written evidence from HM Revenue and Customs

**Q88/95: David Mowat: Estimated £10bn lost revenue due to online sales tax fraud. How big HMRC believes the figure to be and what actions are taken to tackle online tax fraud?**

**Q108: Mr Bacon: What actions are being taken on VAT fraud?**

I promised the Committee a note on the scale of the exposure to VAT fraud in cross-border online sales (Q95) and what we are doing operationally (Q108). Jennie Granger agreed to add to that some areas raised during the hearing.

As I said at the hearing, for some time now we have seen VAT fraud in cross-border online sales as a significant and growing problem. The latest estimate of the overall VAT gap is £13 billion. This is a robust top-down estimate based on consumption of goods and services in the UK that includes all forms of VAT non-compliance. Any losses from this fraud are included in the VAT gap figure and are not in addition to it. So although this fraud is undoubtedly a significant issue, the losses are not in the range of £10 billion mentioned at the hearing.

HMRC is carrying out analysis to estimate of the potential revenue losses to inform operational planning and an assessment of policy options.

HMRC has made significant progress since identifying this fraud as a growing threat that includes ramped up operational activity, opening dialogue with the online platforms on how they can support us in preventing and tackling the fraud and on developing potential policy options.

We have established an HMRC National Imports Taskforce, which commenced in September, investigating 75 cases, which will rise to 150 by the end of the financial year. The Taskforce has six strands targeting the different taxes and duties at risk and the various potentially vulnerable aspects of the supply chain. For instance

- There have been two days of action against Fulfilment Houses, which saw the seizure of an estimated £500,000 of goods from just one business. All days of action are joint agency, typically, HMRC, Trading Standards, Border Force, Immigration Enforcement and the police where necessary.
- We are also engaging with these domestic partner agencies and overseas partners to share information to better understand the scale and nature of abuse and the most effective compliance responses.
- We are currently tackling 50 cross-tax cases involving companies with both complex structures and supply chains.
- We are ramping up the deployment of our Hidden Economy Teams to target private importation and non-VAT registered entities.

We have also reviewed and tightened the process of issuing importer identity codes and changed the profile on the main Customs entry computer to prevent non-VAT registered importers from benefiting from a key relief.

We are also actively considering policy and legislative responses that we could introduce, including unilaterally in the UK under the current legal frameworks. Longer term solutions may require global action, including EU or international (including OECD) engagement

**Q161 Stephen Phillips: Clarity on Figure 16 of the NAO report – separating organised crime and non-organised crime cases.**

I promised the Committee further information on the breakdown of organised crime, and non-organised crime cases described in figure 16 of the NAO report raised during the hearing. This analysis can be found below.

As I said at the hearing, the overwhelming majority of prosecutions (94% of cases) relate to individuals not involved in organised crime. These include prosecutions of barristers, accountants, lawyers, investment bankers, medical consultants, company directors and people hiding wealth offshore. In the highest category of tax revenue of over £1 million, the majority (53.8%) of all cases in that range are non-organised crime cases. For all other categories, more than 90% of prosecutions related to individuals not involved in organised crime.

Of the cases relating to Organised Criminal attacks on the tax system, Tobacco, VAT repayment, Missing Trader Intra-Community and Money Laundering were the main areas of fraud.

As a result of our criminal investigations £6 billion of revenue loss was prevented between April 2010 and March 2015, with 2,885 people prosecuted. 2,647 were convicted and received sentences collectively totalling 3,125 years.

Further breakdown of Figure 16 – 2014-15 cases<sup>1</sup> leading to a criminal conviction

Revenue at stake by range	Total number of cases in range	Number of cases concerning individuals not engaged in OC <sup>2</sup> in range	% of cases concerning individuals not engaged in OC <sup>3</sup> in range	Average value of cases concerning individuals not engaged in OC <sup>4</sup> in range	Number of OC cases in range	% of OC cases in range	Average value of OC cases in range
Up to £4,999	64	64	100%	£1,799	0	0%	£0
£5,000 to £9,999	40	40	100%	£7,117	0	0%	£0
£10,000 to £49,999	125	125	100%	£22,710	0	0%	£0
£50,000 to £99,999	44	44	100%	£65,381	0	0%	£0
£100,000 to £499,999	72	70	97.2%	£211,332	2	2.8%	£325,876
£500,000 to £999,999	15	14	93.3%	£659,676	1	6.7%	£557,974
Over £1 million	39	21	53.8%	£3,226,980	18	46.2%	£30,323,969
<b>Total</b>	<b>399</b>	<b>378</b>	<b>94.7%</b>		<b>21</b>	<b>5.3%</b>	

*Dame Lin Homer*

*Permanent Secretary, HMRC*

*22 January 2016*

<sup>1</sup> Cases may involve 1 or more individuals.

<sup>2</sup> OC – Organised Crime

<sup>3</sup> OC – Organised Crime

<sup>4</sup> OC – Organised Crime