

The Gordian Knot: Executives' Guide to Mastering VAT Fraud in the World of M&A

Decoding VAT Fraud: Navigating the Minefield from Ghost Trades to Vanishing Taxes

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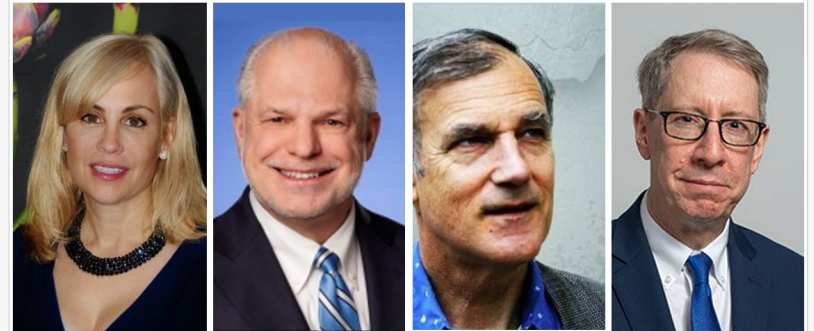
[/EINPresswire.com/](https://EINPresswire.com/) -- As we navigate the nuanced terrain of international mergers and acquisitions (M&A), where financial deceit and legal complexities can sometimes obscure deeper geopolitical threats, corporate leaders must discern the multifaceted risks at play. These challenges should not be

viewed solely as business risks but as vulnerabilities with far-reaching implications for global security. Among the challenges, beyond the pitfalls of financial misrepresentation and hidden liabilities, lies the VAT (Value Added Tax) fraud, which is distinct from other forms of tax evasion

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Understanding the mechanisms, the ease with which fraudsters exploit international VAT systems, and the real-world implications of these schemes is the first step in a concerted, global response.”

*Bruce Zagaris, Partner,
Berliner Corcoran & Rowe*



Adriana Sanford, Hon. Noel L. Hillman, Bruce Zagaris, and Ross Delston

or manipulation primarily because it enables organized crime groups to generate illicit gains at each stage of the supply chain.

Adriana Sanford highlights some potential indicators of these fraud, including suspicious loan terms, underpayment to suppliers, shell companies, unusual transaction patterns, acquisition of established companies by inexperienced owners, and unexplained closures. She emphasizes that studying real-world cases empowers corporate executives to steer clear of these pitfalls, thereby avoiding entanglement with organized crime syndicates.

Missing Trader Fraud, also referred to as missing trader intra-community fraud or MTIC fraud, is a specific category of VAT fraud. Typically, the goods are initially imported into a country that is exempt from VAT. These goods are then sold in another jurisdiction where VAT is applicable. However, the seller, commonly referred to as the "missing trader," absconds without fulfilling

their obligation to remit the collected VAT to the relevant tax authorities.

Sanford cautions that this type of fraud may also be a component of a broader scheme referred to as carousel fraud, where the "same goods are traded repeatedly and VAT is fraudulently claimed multiple times". Transitioning from the technical overview of MTIC fraud to its broader implications, it's clear that this form of tax evasion is not merely a fiscal concern—it represents a significant threat to international security. The gravity of engaging, whether deliberately or inadvertently, in VAT fraud schemes becomes starkly evident, given the severe repercussions including hefty fines, criminal prosecution, and sometimes physical danger.

The VAT fraud operations may span multiple countries, linking to additional criminal activities or terrorist financing.

"Operation Huracán," led by the European Public Prosecutor's Office (EPPO) in Cologne, Germany, uncovered a significant VAT fraud scheme in the trade of over 10,000 automobiles, with a €225 million fraudulent turnover and over €38 million in VAT losses. Launched in January 2021, the investigation exposed a network using German buffer companies to buy cars, claim VAT refunds, and sell them to "missing traders" in Italy and Hungary. Washington D.C.-based legal expert Bruce Zagaris sheds light on Brazil's VAT fraud, characterized by the misrepresentation of product origins as being from the Northeast to unlawfully benefit from reduced VAT rates, potentially as part of a broader fraudulent scheme. To combat this problem, Brazil is enhancing collaboration between its internal revenue service and Customs services, focusing on ensuring the accuracy of transactions and adherence to tax laws.

Former FDIC bank regulator Ross Delston, an independent expert in anti-money laundering (AML) practices, underscores the critical importance of companies maintaining vigilance against a spectrum of fraudulent activities. In addition to VAT fraud, he emphasizes the pervasive threat of trade-based money laundering (TBML) around the globe. TBML is achieved by over or under-invoicing goods and services, invoicing the shipment of goods that do not exist (phantom shipments), or making multiple invoicing for the same goods or services. Delston highlights the



Sanford, based in Los Angeles, works remotely with PUGA ORTIZ ABOGADOS in Chile.



The need for collaborative approaches, cross-sectoral strategies, and international cooperation has become more crucial than ever.

need for comprehensive anti-fraud and AML strategies. Similarly, Honorable Noel L. Hillman, now at [Gibbons P.C.](#), formerly an Assistant U.S. Attorney in New Jersey, prosecuted Merchandise Overvaluation Fraud in Argentina. His investigation uncovered the exploitation of export incentives, manipulation of trade statistics, and laundering of illicit funds. The complexity of VAT fraud and other types of fraud highlights the critical need for coordinated efforts to detect, prosecute, and prevent these crimes. This is vital in international M&A deals, where meticulous due diligence on target companies, including VAT verification and supply chain scrutiny, is imperative to avoid criminal associations. Businesses are essential components of societies, economies, and the global community, contributing to growth and development. Their actions today have a lasting impact on the landscape of tomorrow.

ABOUT US

Adriana Sanford, Founder of Data Privacy Help LLC

Adriana Sanford's expertise centers on addressing global threats and navigating complex multijurisdictional conflicts, underscoring the severe consequences of noncompliance. She focuses on international privacy law, M&A transactions, VAT fraud issues, and global healthcare. With over two decades of experience, Sanford has confronted the intricate challenges of international organized crime and its connections to corporate fraud, bribery, and other forms of business malfeasance. She draws upon a profound family legacy of resistance against exploitation, corruption, and injustice, notably exemplified by her great granduncle Franz Schweyer, Bavarian Interior Minister, who opposed Adolf Hitler and became one of the earliest victims of the Holocaust.

Ross S. Delston is an independent American attorney, Certified AML Specialist (CAMS), CipherTrace Certified Examiner (CTCE), and expert witness, with over 40 years of experience in the financial services sector. As a former U.S. banking regulator (FDIC), he specialized in Bank Secrecy Act/AML issues for over two decades. Delston has served as a consultant for the International Monetary Fund (IMF) since 1997.

Honorable Noel L. Hillman joined Gibbons P.C. to lead its Alternative Dispute Resolution (ADR) practice after an 18-year term on the U.S. District Court. Nominated by President George W. Bush, he received the highest rating from the ABA and unanimous confirmation from the Senate. His career also includes 14 years at the U.S. Department of Justice in various roles, including Senior Counsel to the Assistant Attorney General for the Criminal Division and Chief of the Division's Public Integrity Section, and Assistant U.S. Attorney for the District of New Jersey.

Bruce Zagaris is a Partner at [Berliner Corcoran & Rowe](#). He advises individuals, entities, and governments on international tax, financial services, and criminal law issues. He has extensive expertise in tax controversy, representing clients in voluntary disclosures, audits, and litigation.

Zagaris also served as a consultant and expert witness in criminal trials, including cases involving AML and tax crimes.

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