

AML ALERT: Missing Trader Fraud

Extract from NCA Amber Alert – Reference 0590-NECC

Overview

This alert is issued by the JMLIT Expert Working Group (EWG) on Tax Evasion. The purpose of the alert is to raise awareness of the behaviours indicative of potential missing trader fraud, and to enable businesses to better protect themselves from this criminal activity.

Businesses may wish to consider the identified typologies and indicators against their control frameworks and internal training where relevant. As an example, the following high-level “touch point” control list may indicate appropriate teams, systems, and controls that may benefit from knowledge of this alert internally:

- Know Your Customer
- Fraud Controls
- Ongoing monitoring; name screening, money flow monitoring (payment, settlement, transfer) and market activity (trade surveillance, electronic communications monitoring, market abuse)

Missing Trader Fraud

Missing trader fraud involves the trade of goods and services for the purpose of the theft of value added tax (VAT) through the use of missing traders. Missing traders are companies that fail to pay the VAT due on their sales to HMRC (or other relevant overseas tax authorities) before ceasing trading (“going missing”). The goods and services used are often legitimate and often end up in the genuine market.

Often referred to as missing trader intra-community (MTIC) fraud; it can occur in any jurisdiction where a VAT system exists, and not only within the European Economic Area where it is commonly associated. Missing trader chains can cause tax losses in the UK or abroad.

Common Features of Missing Trader Fraud

Fraudsters seek trading relationships with large reputable businesses in order to sell large amounts of goods to the genuine UK market, charging VAT on each transaction. These businesses are usually genuine and often not aware of, or involved in, the fraud. Dealing with large businesses allows fraudsters to maximise the amount of trade they conduct (therefore maximising their profits), while also avoiding the need to claim a VAT repayment from HMRC.

Thorough due diligence by commercial partners is essential in identifying suspect companies and avoiding getting caught up in missing trader tax loss chains.

Red Flags to Consider

Commodity Flags

Any goods or services that are standard-rated for VAT can be used to conduct missing trader fraud. However, certain commodities are more attractive due to factors such as: their value, ease of trade, and their transport and storage costs. Commodities of interest include, but are not limited to:

- Metals (particularly copper and silver)
- Small electrical goods (such as hard drives and games consoles)
- Fast-moving consumer goods (such as soft drinks)

Commodities that may be attractive to criminal gangs also include 'intangible goods' that lead to VAT exposure, such as energy and financial services certificates. The most well-known cases involved emission allowance 'carbon credits' in 2009 and more recently Guarantees of Origin (GoOs) in 2019.

KYC Flags

- Minimal industry experience of either the entity or its employees / poor knowledge of the market and products.
- Unusual expansion or movement into unrelated trade, especially where the business model does not seem suited to the new sector. This could include inconsistent and rapidly changing Standard Industrial Classification codes used by entities to trade.
- Businesses registered to a residential address or an address on a short-term lease. This would include links to shell company or higher-risk trust and company service provider (TCSP) addresses.
- Start-up funding received from an unusual or unconnected source, especially when provided to someone with a poor credit history.

Transactional or Trading Flags

- Rapid increase in amount of trade sought. This would include dormant or new accounts suddenly trading or transacting in higher volumes than expected over a short space of time, potentially resulting in a large, sudden increase in revenue.
- Prices that are too good to be true. This could be observed where an entity is offering prices that are not in line with the market.
- Shorter payment terms than the industry standard.
- Entity may seem to have a disinterest in profit / loss, and a general lack of economic rationale for a transaction.
- Trade / transaction facilitates currency change.
- Trade / transaction facilitates jurisdiction change.
- Higher turnovers than expected for the size of the business.
- Large payments of almost equal value entering and exiting the account in a short time frame.
- Amounts being paid in large round figures, or a few pence over such a figure.
- Payments to very few companies and / or trading with limited number of counterparties, particularly where the counterparties and customers are owned or controlled by the same or related parties.
- Payments to overseas companies in unrelated trade sectors.
- Payments to higher-risk money laundering jurisdictions.
- Payments made or received from third-parties.
- No or very few salary payments, or other expected business outgoings. No payments to HMRC or other relevant overseas tax authorities.
- Transactions noted as using a) generic messages, b) multiple entities using the same, repeated invoice numbers, c) multiple entities using same VAT number.
- Repeat deals at the same or lower prices and small or consistent profit.

Other flags to consider

- Common Internet Protocol addresses used to manage multiple client accounts.
- Use of an Alternative Banking Platform (ABP) with an account based abroad.

Definitions

Missing trader fraud involves a number of entities that can be broken down into the following four categories:

- **Missing traders** (aka defaulting/hijacking traders or acquirer). These are companies that acquire and / or import goods and / or services VAT-free from other countries, sell them on within the UK charging VAT on the

sale, and then fail to pay the VAT to HMRC. They are usually 'mules' operating on behalf of criminals and generally have no funds or assets with which to pay their VAT liability.

- **Broker traders** dispatch (or export) the goods or services outside of the UK. The brokers do not charge VAT on these non-UK sales but are entitled to reclaim the VAT incurred on the related UK purchase from HMRC. These "reclaims" or "repayments", which mostly flow back to the organised criminals, are directly related to the unpaid VAT of the missing / defaulting / hijacked / acquirer trader. When the repayment is made, there is a direct loss to HMRC because the unpaid VAT at the start of the chain has not been received to balance the subsequent repayment. This is how criminals extract the proceeds from this crime. There are also occasions when the broker trader does not appear to be in a straight repayment position and in fact uses the input tax to reduce or disguise a net liability owed to HMRC (either by themselves or a party in a related supply chain). Rather than pay HMRC the output tax due on transactions that incur UK VAT, the broker uses input tax on UK purchases to reduce the liability owed to HMRC and disguises the fraudulent nature of the transaction chains. No reclaim appears to have been submitted and this prevents HMRC from identifying repayment claims to analyse.
- **Buffer traders** are those entities that buy and sell within the UK, charging and reclaiming VAT on each transaction. Their role is to distance the broker trader or end company in an acquisition fraud from the obvious non-compliant behaviour of the acquirer. They are often instructed to send the money to the offshore bank accounts of third parties, rather than paying the acquirer directly. This results in the acquirer having no funds with which to pay its VAT liability. This is a key indicator that the buffer's trading activity is part of a wider scheme to steal VAT.
- **Conduit companies** are businesses that are involved in facilitating the execution of fraud in another country. Where the conduit company is in the UK, there will be no tax loss in the UK but there will be abroad.

Types of Missing Trader Fraud

- **Acquisition fraud** involves the import and onward sale of goods and services without accounting for the VAT. Criminal proceeds are generated by the perpetrators charging VAT when selling into the genuine market, but not paying this to HMRC. Acquisition fraud is now the most common form of missing trader fraud affecting the UK. This is because this modus operandi gives the perpetrators more control over the process as, unlike carousel fraud (explained below), it does not require interaction with HMRC to obtain the profits in the form of a VAT repayment. Carousel fraud is now less common in part due to HMRC activity in identifying and denying fraudulent repayments
- **Carousel fraud** involves the circulation of the same goods through the same companies and countries multiple times. Each export generates a repayment, so fraudsters obtain proceeds by claiming these repayments while not accounting for the VAT due earlier in the chain.
- **Offset Mutation Typology** The above traditional types of missing trader fraud can also utilise additional fraudulent methodologies to disguise the frauds further. The main variation identified presently is offsetting, which hides the traditional losses. Offsetting occurs when the defaulting trader creates fictitious input tax to reduce the amount it pays to HMRC, often to an amount close to £0. By charging output tax on trade through the tax loss chain, the defaulting trader is in a position of liability to HMRC. Rather than going 'missing' with the money, the trader places itself in the broker position with a fictitious chain. In this position, it is able to inflate its input tax position and set this against its output tax position, reducing or removing its liability to HMRC. By doing this, the trader is able to make a small (or no) payment to HMRC and continue trading. It has stolen the output tax without the need to go missing.

Useful Resources

Businesses can use the following resources to find out more information about the general risks posed by missing trader fraud

Reverse Charge - the reverse charge procedure results in a business-to-business (b2b) tax-neutral chain of transactions, with the seller no longer having to account for VAT, so it removes the opportunity to steal the VAT in b2b

transactions within the UK. More information can be found here [VAT Reverse Charge - HMRC internal manual - GOV.UK \(www.gov.uk\)](#)

HMRC how to spot missing trader VAT fraud - [How to spot missing trader VAT fraud - GOV.UK \(www.gov.uk\)](#)

Suspicious Activity Reporting

If you identify activity which may be indicative of the activity detailed in this alert you should make a SAR and include the reference **0590-NECC** in the subject line within the appropriate glossary code for missing trader fraud (XXF5XX).

Guidance on reporting is available at: www.nationalcrimeagency.gov.uk.

Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

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