

YACHTING VAT NOTE

July 2006

Going Reverse on VAT Losses

Estimates and statistics ahoy! You can tell the second half of the year has opened much as usual, with stocktaking and forecasts in spates of numbers. But one statistic most bandied about this month is perhaps designed to shock. It is that losses across the EU attributable to Missing Trader Intra-Community (MTIC) VAT fraud are now running at €50 billion a year. MTIC fraud is where one participant in a chain of transactions claims back the VAT they have paid for a product but disappears before passing on the VAT that they have received from the next person in the chain. EU tax commissioner Laszlo Kovacs is calling it the "number-one tax fraud" in Europe. In the UK, where the National Auditor has failed to approve HM Revenue and Customs' accounts for the fourth year in a row, the head of the parliamentary Public Accounts Committee was more colourful in his outcry. Money, he said, was leaking from the system "faster than water from London's antiquated pipes."

So what to do? One solution being pushed by the UK and receiving strong backing in Brussels is to expand the "reverse charge mechanism" for VAT payments. A strict reverse charge system would mean VAT is accounted for either fully on actual value at each stage of the supply chain, or else only when a business sells a product to the end customer. At present VAT for most goods and services can be fractionally "paid" and reclaimed numerous times right through the supply chain, giving ample opportunity for missing trader fraud.

There is in fact little or no evidence of MTIC VAT fraud in the yachting industry. What there is is a lapse in compliance and accounting, particularly in respect of declarations for goods and services purchased and consumed within the EU. It is not uncommon, for example, for some yacht owners with an Isle of Man VAT identification number to buy provisions and spares in say France, VAT-free using their VAT number, but then fail to send the invoices to the Isle of Man where the VAT should ordinarily be declared on a "reverse charge" or "destination" basis. Similarly, some yacht operators are still incredulous when advised that services such as

advertising, consultancy, legal or accounting which they import from abroad will be treated as if **they** supplied them - and so they must account for VAT as such in the EU territory where they are registered.

Given the way that the EU VAT system is designed to work - i.e. buy-pay-reclaim and sell-charge-pay - it is easy to see why any such omission would be of concern to the revenue authorities. Apart from the potential for VAT losses where there is reclaim but no pay, the failure to account for the VAT on supplies acquired from other EU countries skews the official trade statistics between Member States so much as to make them unreliable. This frustrates one of the other key objectives of the Single Market: to replace internal fiscal frontier controls on trade with a self-policing and transparent "Intrastat" system, which ensures that VAT receipts are redistributed to Member States in a way that mirrors actual consumption.

In the current imperfect system you would expect one EU country's VAT loss to be another's VAT gain. Not so, it seems - virtually all the Member States are crying wolf in chorus. There is an all-pervading sense that everyone is being robbed without anyone being able to say exactly by how much. But €50 billion, never mind how they came by that, does capture the imagination. Conveniently too, the figure focuses minds at a time when the EU VAT system is undergoing the first major shake up in its 30-year history.

Isle of Man Yachting – Nervous too

Isle of Man's link with the big yacht industry has strengthened remarkably in recent years because of its unique combination of VAT benefits and tax-exempt companies. But even here too there is growing suspicion that the Island may be being cheated of VAT revenues. The suspicion centres around goods and services purchased by Isle of Man VAT registered businesses from VAT registered suppliers in the EU. Under normal VAT rules these "intra-Community" purchases are zero rated in the supplier's country in exchange for the recipient's VAT number. The recipient should therefore declare them on its VAT return, charging (and reclaiming only if eligible) VAT at the UK/IOM rate of 17.5%.

There are signs that the Island's Customs and Excise authority, which has traditionally favoured a carrot approach, is now resorting to forceful tactics.

This bulletin is prepared by Moore Stephens Consulting Limited. Yachting VAT Note is designed to keep readers abreast of current developments and trends. But it is a general guide only and is not intended to be comprehensive. No liability is accepted for the opinions it contains, or for any errors or omissions. In all cases you should seek professional advice specific to your circumstances.

If for any reason you would prefer not to receive Yachting VAT Note, please reply to this email with "Yachting VAT Note - Remove" in the subject header.

Moore Stephens Consulting Limited

26 -28 Athol Street, Douglas, Isle of Man IM99 1BD.

More Information? If you have any queries concerning our services then please contact us by telephone on +44 (0) 1624 662 020, or email:

Ayuk Ntuiabane: ayuk.ntuiabane@moorestephens.co.im
Clive Dixon: clive.dixon@moorestephens.co.im
Anthony Cashen: anthony.cashen@moorestephens.co.im