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VAT fraud in the EU

Taxpayers' money goes to organised crime

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Green MEP **Benedek Jávor** and Ingeborg Gräßle, Chair of the European Parliament's budgetary control committee, hosted a conference on VAT fraud on Wednesday 4 February 2014 in the Parliament.



A recent study estimates the VAT gap in the EU at €177 billion a year - 16% per cent of the VAT revenue expected by Member States. VAT is an exceptionally important source of the revenue of all Member States. On average, VAT represents about 20% of states' revenues in the EU. If the latest estimate is right, this means that 1 out of every 6 VAT euros expected by EU Member States is lost, mostly to fraud. This is a serious situation, which calls for an assessment of the achievements and failures of the VAT reform process and attempts at the improvement of enforcement that started with a Commission Communication on the need for a coordinated strategy against fiscal fraud in May 2006. Organisers invited a top-level expert from outside the European institutions, to deliver the keynote speech, evaluating the progress that has been achieved curbing VAT fraud since the Commission's 2011 green paper. In her evaluation, Fabiola Annacondia of IBFD, said an honest effort has been made and a several measures and instruments had been tried, but not much has been achieved. Carlo van Heuckelom of Europol clarified that his institution is not a law-enforcement agency. It can address the cross-border nature of many VAT fraud cases only by providing a platform of information exchange and co-operation for national law-enforcement institutions. He also drew attention to the fact that the vast majority of the public revenue loss caused by VAT fraud is due to a very limited number of committed organised crime groups, and the problem to be addressed in

relation to VAT fraud is that through it, tax-payers are in effect financing organised crime. Accounts of Member State experience followed from Hungary and Romania. Balázs Romhányi, President of the Fiscal Responsibility Institute in Budapest, drew attention to macro statistical indicators that authorities could use to locate industries and sectors in which large scale VAT fraud is likely to be practiced. András Horváth, a former official of the Hungarian tax authority, shared his experience on whistleblowing on the leadership of the authority blocking investigations of the specialised unit of the authority investigating a large scale VAT fraud trader that went missing. His revelations were a prequel of the US-Hungary visa ban scandal, in which, among others, the head of the Hungarian tax authority was been banned from the US on the basis of a presidential proclamation, which is used only to ban persons involved in, or benefiting from, corruption. András Lukács, of the Clear Air Action Group, placed the specific problem of VAT fraud in the context of the more generic problem of state capture. Afterwards, Paul Dimitriu, Deputy Chief Prosecutor of the Romanian Anti-corruption Directorate that has produced spectacular results in bringing fraudsters and corrupt officials to justice, including officials from the highest level of government. Following all presentations, Donato Raponi, head of the VAT unit in DG Taxud, was invited to give reactions from the Commission. Mr. Raponi repeatedly said although the Commission may bring forward a myriad of policy suggestions not much can be achieved as fiscal policies are a national competence. The combination of the four basic freedoms with fiscal policy within national limits and a lack of political will to stand up strongly against VAT fraud at national level results in the "free circulation of fraudsters", said Raponi. In conclusion, Ingeborg Gräßle and Benedek Jávor emphasised the importance of the efforts of people who push the issue against all odds. Organised crime, possibly even international terrorism gets funding from VAT fraud, so the matter should not be taken lightly.

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