

Press Release

Contact: Lukáš Kropík
Position: PR manažer
Tel: +420 775 013 139
Email: lkropik@deloittece.com

Contact: Klára Vyskočilová
Position: Senior Content Coordinator
Tel: + 420 736 513 244
Email: kvyskocilova@deloittece.com

Companies underestimate the risk of getting inadvertently involved in VAT fraud. Ongoing precautions are taken by fewer than half of them.

Prague, 7 December 2016 – almost 70% of companies do not consider the risk of getting inadvertently involved in VAT fraud to be real. Consequently, there is a lack of measures to identify such risks and their impact. According to Deloitte’s study carried out among 177 companies, only 44% test their business partners with each new order or at least once in 6 months. However, the threat of getting involved in VAT fraud has become increasingly frequent. The number of unreliable payers registered in the register of Financial Administration has increased by 73% in the last 12 months.

"Underestimating the threat of direct business partners or direct subcontractors getting involved in VAT fraud often results in the taxpayers starting to solve the problem as late as in the course of a tax audit process. However, at this stage it is too complicated for them to prove that they took adequate precautions," as Jiřina Procházková, attorney at law at Ambruz & Dark Deloitte Legal, explains. "It is no longer possible to suppose that entrepreneurs are responsible for their own tax liabilities. The Financial Administration’s activities aimed at eliminating tax fraud make entrepreneurs responsible, to a certain extent, also for the activities of their business partners," as Radka Mašková, a Tax Director at Deloitte, points out.

Deloitte Study: Underestimating Risks, Inaccuracies in a Tax Audit

The tax audits have taught us that the best way for companies to eliminate the risk of getting involved in tax fraud is timely and effective prevention.

However, according to Deloitte’s study, companies are paying little attention to circumspection as only 44% of companies test their business partners with each order or at least once in six months. Out of these, 38% test their business partners only before they start cooperating with them, ie they do not test them continuously or on a regular basis in the course of their cooperation.

"However, more than half of these companies test the reliability of their business partners only by a manual search for information. The risk of inaccuracies and inconsistencies caused by human error significantly reduces the efficiency and reliability of the employed precautions," as Petr Čapoun from Deloitte explains.

The Number of Unreliable Payers Increases

Recently, the number of unreliable tax payers has amounted to almost 6.5 thousand, of which 73% were registered in the last 12 months.

According to the study, 87% of respondents check their business partners using the register of unreliable payers, or using the VIES system for checking the validity of their tax ID (63%). 59% of respondents gain information from the Register of Companies, however, only 6% of companies require that their business partners provide a no-debt confirmation in respect of the tax authority and other institutions.

"Companies should not underestimate the risk of getting inadvertently involved in tax fraud and should pay more attention to precautions. As soon as a supplier appears on the register of unreliable payers, or any other inconsistencies that are unique for the given business area occur, it is advisable and necessary to take appropriate steps in response. One possibility is to secure the tax or in the most extreme cases, to refuse to conclude the business contract. However, one should always consider the specific circumstances of the given situation," notes Radka Mašková.

About the study

The **"Managing the risks relating to getting involved in VAT fraud"** study was carried out among 177 company representatives. The aim of the study was to find out what precautions the companies take in this area and whether they see such risks as a real threat, and what measures they employ to eliminate them. Most companies that took part in the study were engaged in manufacturing, retail and wholesale, and financial services. Recently, 37% of these companies have cooperated with 300 to 1,000 business partners, and 21% cooperated with more than 1,000 business partners.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 225,000 professionals are committed to becoming the standard of excellence.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities. The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through more than 5000 people in more than 41 offices in 17 countries.