

# EU Governments amend VAT treatment of carbon credits to prevent fraud

**Please contact:**



**Ronan MacNioclais**  
+353 1 792 6006  
ronan.macnioclais@ie.pwc.com



**Sean Brodie**  
+353 1 792 8619  
sean.brodie@ie.pwc.com

Three Governments have recently implemented amendments to their VAT legislation to prevent the risk of fraud occurring on the cross-border trading of carbon credits.

Carbon credits dictate the level of carbon dioxide emissions that a business can produce. Companies which produce more emissions than their initial allocation are obliged to purchase additional credits on the open market.

The fraud is possible due to the different VAT treatments which are applied to domestic and cross-border sales of carbon credits. A company selling a carbon credit is usually obliged to charge VAT to a domestic buyer but is not obliged to charge VAT to an international buyer. EU buyers are obliged to account for the VAT in their own VAT returns.

The French taxation authorities have identified instances where a 'carousel' type fraud has occurred involving the purchase and sale of carbon credits. A fraudulent company acquires carbon credits in a cross-border transaction where VAT is not payable to the seller. The carbon credits are then sold on to a domestic purchaser and VAT is charged. The fraudsters then have the opportunity to abscond with the VAT which they have collected.

The carbon credit market generates high volumes with fast trading times. In addition EU emissions allowances only go to final consumption once a year. The open nature of the carbon credit market provides numerous opportunities to fraudsters to misappropriate VAT.

In an unusual step the French, Netherlands and UK governments have amended their legislation in order that both domestic and cross-border sales of carbon can be made without charging VAT. These changes have been implemented as temporary measures until a consensus is reached between the EU member states on how to deal with this issue.

The changes in the legislation should not have an impact on legitimate companies who trade in carbon credits as the new legislation allows the zero rate of VAT to be applied. A company which sells carbon credits can still reclaim VAT charged to it on purchases by it of goods and services.

The Irish Revenue have confirmed that they are monitoring this trend but do not have any immediate plans to change the treatment of carbon credits for Irish VAT purposes.

Our energy industry team will continue to monitor developments in this area. We will issue a further update in relation to this issue when further developments occur.

© 2009 PricewaterhouseCoopers. All rights reserved.  
"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1 is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business.

This publication has been prepared as a guide only. In the interests of brevity and clarity, detailed information may be omitted which may be directly relevant to an individual's or an organisation's circumstances. Professional advice should always be taken before acting on any information contained in this publication. Re-publication and dissemination (other than brief quotations with appropriate attribution) is expressly prohibited without prior written consent. Designed by PwC Design Studio 01988.