

# Finance Bill 2010

Proposed report stage amendments to the Finance Bill to counter VAT fraud within carbon credit trading

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In late 2009 it emerged that major “missing trader” VAT fraud was occurring within the carbon credit trading sector. Europol had estimated the fraud may be as high as €5bn and indeed in January 2010 a number of arrests were made in connection with a suspected €38m fraud.

A number of Member States took immediate action, the Netherlands introduced a reverse charge for supplies taking place within the Netherlands, the French introduced an exemption for carbon credit trades, and the UK applied a zero rating to UK based trades. An exemption would likely result in a VAT cost for carbon credit traders.



Meanwhile the EU prepared a Directive which will introduce temporary amendments to the European VAT Directive empowering Member States should they wish to introduce a reverse charge for relevant transactions taking place within their jurisdiction.

Under a carousel or missing trader fraud a bogus vendor supplies the credits and charges VAT providing a VAT invoice on which the unsuspecting acquirer subsequently seeks a VAT deduction. However, the trader goes missing and that

VAT does not find its way to the relevant Exchequer. Meanwhile the unsuspecting purchaser may find themselves being denied an input deduction by the tax authority.

The amendments proposed to Irish legislation will mean that persons within Ireland supplying carbon credits to other persons within Ireland will no longer charge VAT and instead the purchaser will undertake a reverse charge i.e. will levy the VAT on themselves. The purchaser will of course be entitled to a matching VAT deduction

where they are generally entitled to those deductions. In this way the intention is to keep VAT out of the hands of the supplier.

While the amendments are being introduced they will not commence until the Minister has issued the relevant order. Once the amendment is implemented care should be taken to ensure that no VAT is paid on future carbon credit acquisitions.

If you have any queries please contact either Ronan or Sean.

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