

# PointCarbon

## EU action needed on VAT fraud

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### **EU-wide action is urgently needed to tackle VAT fraud in the carbon market, a trade group said.**

The Carbon Markets and Investors Association (CMIA) today welcomed steps by the UK to deter fraud by scrapping value-added tax (VAT) on all trade of carbon credits from 31 July.

But the group warned there remained a risk of fraud because only three EU member states have changed the way they applied VAT to carbon trade.

“Thereby the urgency for such an EU directive is increased substantially,” CMIA said in a statement.

The UK move followed a similar decision by France in June. Last month, the Netherlands also changed the way it applied VAT to carbon trade within its borders.

The fraud typically involves criminals trading across the borders between EU states, which under European rules is exempt from VAT.

Once the goods are imported, they are then sold on within the country - but the importer then dodges the VAT it is liable to pay.

### **Interim measures**

The UK, which hosts many of the world’s major carbon market participants, said it took the action as an interim step while it works with other EU nations on reforming European law.

The change means over-the-counter UK carbon trades are treated at a zero rate of VAT, which was already applied to the UK’s exchange-based trades.

On Friday, accounting firm KPMG said VAT fraud remained a risk on the Sendeco2 exchange in Spain and Germany’s European Energy Exchange (EEX).

Both exchanges had previously told Point Carbon they believed their internal procedures were robust enough to deter the criminal activity, which is also known as carousel fraud.

The European commission later this year plans to propose a trial use of the method applied by the Dutch, known as the reversed charge mechanism, to apply to VAT on certain goods and services.

This could include the trade in carbon credits, if the executive thinks further steps are necessary.

“In the interests of market integrity and efficiency, the environment must be stabilized and equalized, and swiftly,” the CMIA statement added.

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