

Until recently, frauds relating to deduction and refund on VAT have become alarming. They took place in both big cities and rural provinces causing losses of billions of đồng to the Treasury. Most fraudulent companies have used false invoices and documents to prove that the VAT output they paid was bigger than the VAT input and ask for a refund.

Most of companies asking a refund are usually exporters of goods in large quantities whose VAT input is bigger than the VAT output aggregated for three successive months. Certain malpractices have escaped tax authorities' attention.

- Beside some companies that are eligible to get VAT refund, the rest could only ask for a refund on the VAT input. In HCMC where some 15,000 companies are doing their business, there were some 3,000 cases eligible for VAT refunds in the past three years, that is less than 7% a year.

- In companies that got VAT refunds, tax authorities only inspected invoices and documents relating to exports eligible for VAT refund during the "three successive months suffering VAT input bigger than the output." Other invoices and documents aren't under investigation. The tax authorities that are usually understaffed and carry out investigation of those invoices manually can't inspect all invoices not relating to cases of VAT refund. In HCMC tax services, there are only some 3,300 officials and 50% of them are trained workers, so they couldn't handle some five million invoices issued every year. This overload allows them to inspect only 30% of cases after refunding. Statistics gathered in HCMC help us estimate the number of inspected companies as follows:

- Of some 15,000 companies, some 1,000 companies (or 5.66%) are refunded every year.

- Of those 1,000 companies, only 300 ones are inspected after refunding.

- Only invoices relating to cases of refund are inspected. Assume that only 50% of transactions done by those 300 companies lead to refund on VAT, the real percentage of invoices under inspection is only 1% ($15,000 \times 6.66\% \times 30\% \times 50\% = 150$; and $150/15,000 = 1\%$).

Moreover, the inspection, if any, is only carried out by a handful of tax officials when they have to make reports at the end of the fiscal year. That is why the possibility of connivance is very great.

FRAUDS RELATING TO DEDUCTION AND REFUND ON VAT

by Dr. PHAN MỸ HẠNH



Of fraudulent cases discovered, the loss to the Treasury isn't estimated exactly. The following are some facts:

- Most fraudulent cases are related to export companies that do cross-border export. These companies usually export farm products. They are allowed to deduct 2% of the value they stated in the invoices. The refund on VAT is worth only 2% but it leads to great losses to the Treasury. Let's consider an example.

- a. The Company X exports farm products and makes a declaration stating that it paid VND100 million for the goods it exported.

- + It is allowed to enjoy a refund of VND2 million (that is, $100 \text{ million} \times 2\%$). This sum will be considered as a loss to the Treasury if this case is proven fraudulent.

- + When calculating the company income tax, the said declaration allows it to take away VND98 million from the taxable income. This means that it avoids a tax payment of VND30.36 million (that is, $\text{VND98 million} \times 32\%$).

- + The total loss to the Treasury will be VND30.36 million + 2 million + 32.36 million, some 17 times bigger than the loss caused by the refund on the VAT input.

- b. If the Company X declares that it exports another products, it could make false invoices for the goods it exports. These invoices allow it to enjoy a 10% deduction along with a 32% exemption from the company income tax. In reality, this malpractice is done using a series of invoices issued by different suppliers, and one of them is a dummy company. With manual investigation, the tax authority couldn't track the movements of goods through all companies, thereby discovering possible frauds.

- c. The loss will be much greater when the company declares it exports goods subject to the special consumption tax (but it exports nothing at all), such as filter cigarettes made of imported raw materials. In this case, the company enjoys a VAT refund of 10% of the value stated in the invoice and avoids a 60% rate of the special consumption tax as allowed by law. In addition, with large sums

taken away from the taxable income, the company is proven loss making and exempt from the company income tax for many years (the law allows loss in this year to be debited against the profit earned in the next five years).

If the loss of VND480 billion publicized by the tax authority last year is discovered by inspecting only 1% of invoices issued during the year, the real loss will be very much bigger (VND7,766.4 billion according to our above-mentioned calculations).

d. Another malpractice could take place when companies connive to produce false invoices to embezzle the public fund. One company makes false invoice that is used as an input

ing them with documents kept by the suppliers.

- This malpractice usually escapes notice because it doesn't lead to a refund or imply false export. Moreover, all input and output invoices always match well.

The following table shows the number of false invoices used for settling expenditures on the Văn Thánh Tunnel in HCMC and the loss they caused for the public fund.

In this case, nine false invoices that are worth VND1.3 billion were discovered. With these output invoices, if not discovered, fraudulent companies could produce corresponding input invoices (that are worth some VND1,300 billion) to ask for a

fund for public expenditure is embezzled, some VND420 billion more in tax take is also lost. The government spends some VND70,000 billion on goods and services every year and the waste in public investment is officially estimated at 40%, the loss to the public fund is really huge.

The fraudulent deduction and refund have become alarmingly serious and caused great harm for the public fund and the whole economy as well. Tax evasion and commercial fraud also lead to smuggling activity, bad business climate and unfair competition. In political aspect, this situation erodes the trust in the government and the administrative machinery.

Table 1: False invoices used in the Văn Thánh Tunnel (VND million)

	Those who gain	Loss to the public fund	Loss to the government expenditure	Loss to the tax take	Percentage
False output invoices used for withdrawing money from the public fund	Companies and individuals authorized to use the public fund and their partners	1,300	1,300		100
False input invoices used for deducting 10% of the VAT	Companies	130		130	10
False invoices used for getting exemption from the company income tax	Companies	416		416	32
Total		1,846	1,300	546	142

invoice for another company to withdraw money from public funds or ask for a refund. This malpractice is very likely because:

- In public works and government expenditure in goods and services, the related authorities usually demand legal invoices without compar-

VAT deduction of VND130 million (or 10% x 1,300 billion) and a 416-million cut in the company income tax (or 32% x VND1,300 million). This results in a loss of VND1,846 million to the public fund.

According to this calculation, when VND1,000 billion from the

In short, fraud by using false invoices and documents has become a serious problem to the whole society. The Government had better ask managers and experts to take part in the struggle against this situation by working out effective and strong measures. ■

