



HM Revenue
& Customs

Scrap Metal

HMRC Compliance activity in the Scrap
Metal industry

An overview



HMRC Purpose, Vision and Way - extracts

Our Purpose

- We will make sure that the money is available to fund the UK's public services

Our Vision

- We will close the tax gap

Our Way

- We are passionate about those who need our help and are relentless in pursuing those who bend or break the rules

HMRC Compliance activity

Aim: Closing the tax gap

Including a risk-driven counter-evasion approach to apply :

- Criminal prosecution for tax fraud - jail
- Civil sanctions :

Assessing evaded taxes/duties

Charging interest and penalties

Insolvency / Securities

Working collaboratively with other LEAs

Main HMRC Tax obligations that apply to the Scrap Metal and Recycling Industry

- VAT
- Corporation Tax
- Income Tax Self Assessment: Personal tax
- PAYE
- National Insurance
- Others include Excise duty on road fuel, National Minimum Wage on staff

HMRC Compliance activity in Scrap Metal sector

Tax evasion indicators

- Incomplete or inadequate records
- Inadequate CASH handling processes and procedures
- Handling stolen metals
- Large amounts of cash held by the business
- Business assets
- Life style

Evidences

- False sales and/or purchase invoices
- Cash held
- Undeclared Bank/Building Society deposit account/s
- Customer Sales verification

Is it taxable ?

- Regularising the tax position of criminals and their associates is not legalising criminality
- Crime is an incident of an illegal trade but is not an impediment to taxing the profits
- Where a trade is conducted or services provided (source) profits are liable to tax
- If there has been a 'consensual transfer of money' then there is a high degree of probability that the profit is taxable. 'Pure crime' eg theft not taxable

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Civil investigation points of interest:

- We can go back 20 years
- Separate evasion offences under each main tax eg Corporation tax, Excise duties, income tax, PAYE, VAT, Environmental taxes
- Interest
- Penalties up to 100% if tax evaded
- Civil burden of proof
- We do not need evidence of criminality to investigate.

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Key HMRC teams - examples:

1. Risk and Intelligence (RIS) : `Analysis and Information`
2. Criminal Investigations: CI Ops/Criminal Taxes Unit
3. Specialist and Local: Civil Evasion teams
4. Taskforces – collaborative approach

1. RIS Analysis & Information:

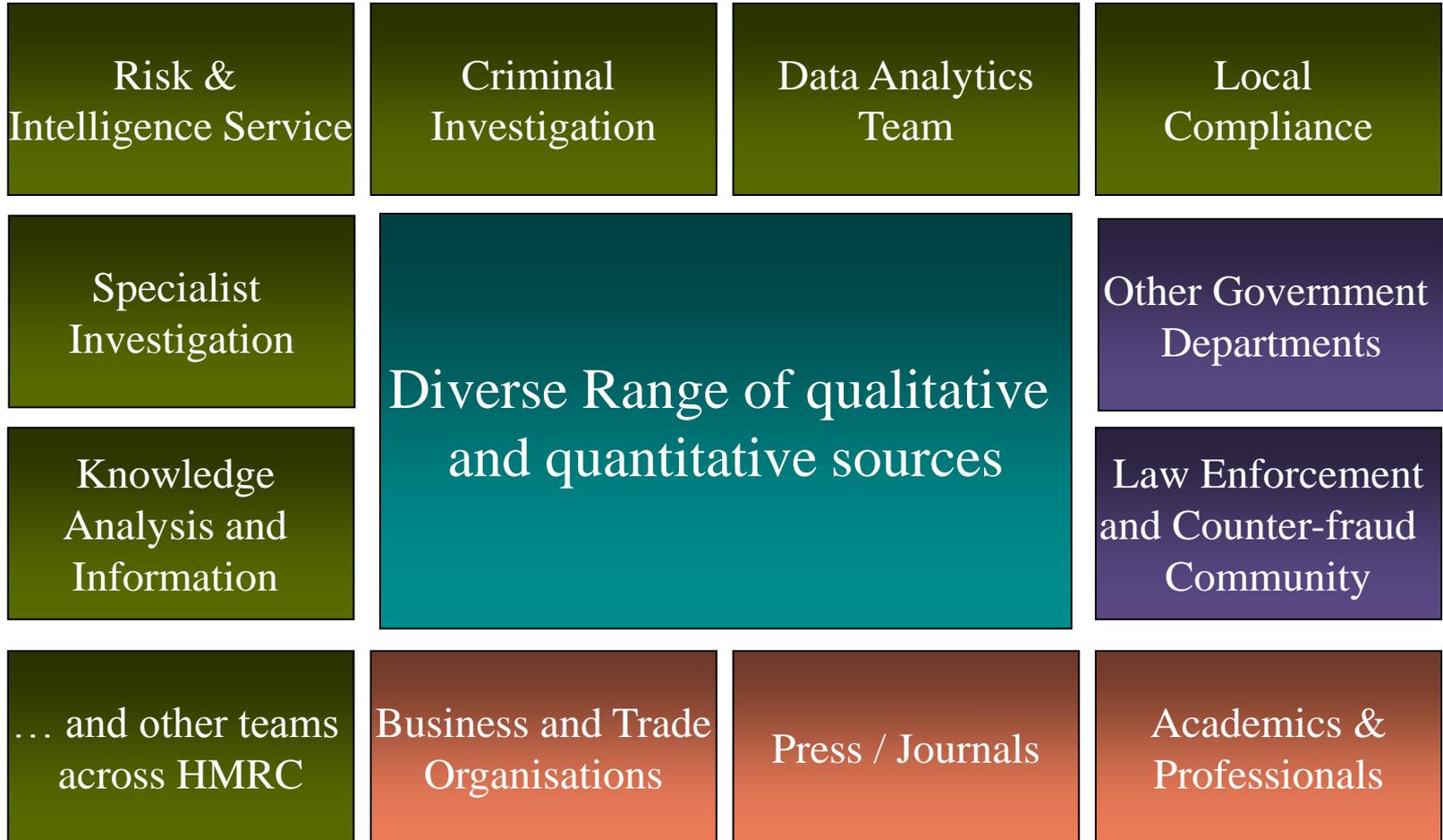
→ Understanding the tax risk

→ Finding risk & enhancing case selection

→ Stopping attacks

→ Improving tax knowledge

What informs the HMRC Risk and Intelligence Service Threat Assessments?



Risk Assessment process for the scrap metal industry

Strategic Monitoring

- Metal exports
- National and geographic tax receipts
- Monthly levels of VAT repayments

Case specific risk assessment

- Intelligence driven
- Comparison to peer businesses
- Credibility of tax declarations in relation to 3rd party information

The risks and threats to HMRC from scrap metal dealers

The industry is worth over £5bn

Predominantly cash-based industry which makes it attractive to criminals

This facilitates different kinds of suppression / evasion as it does in other cash rich industries

Evidence of Carousel fraud , taxes and Excise frauds

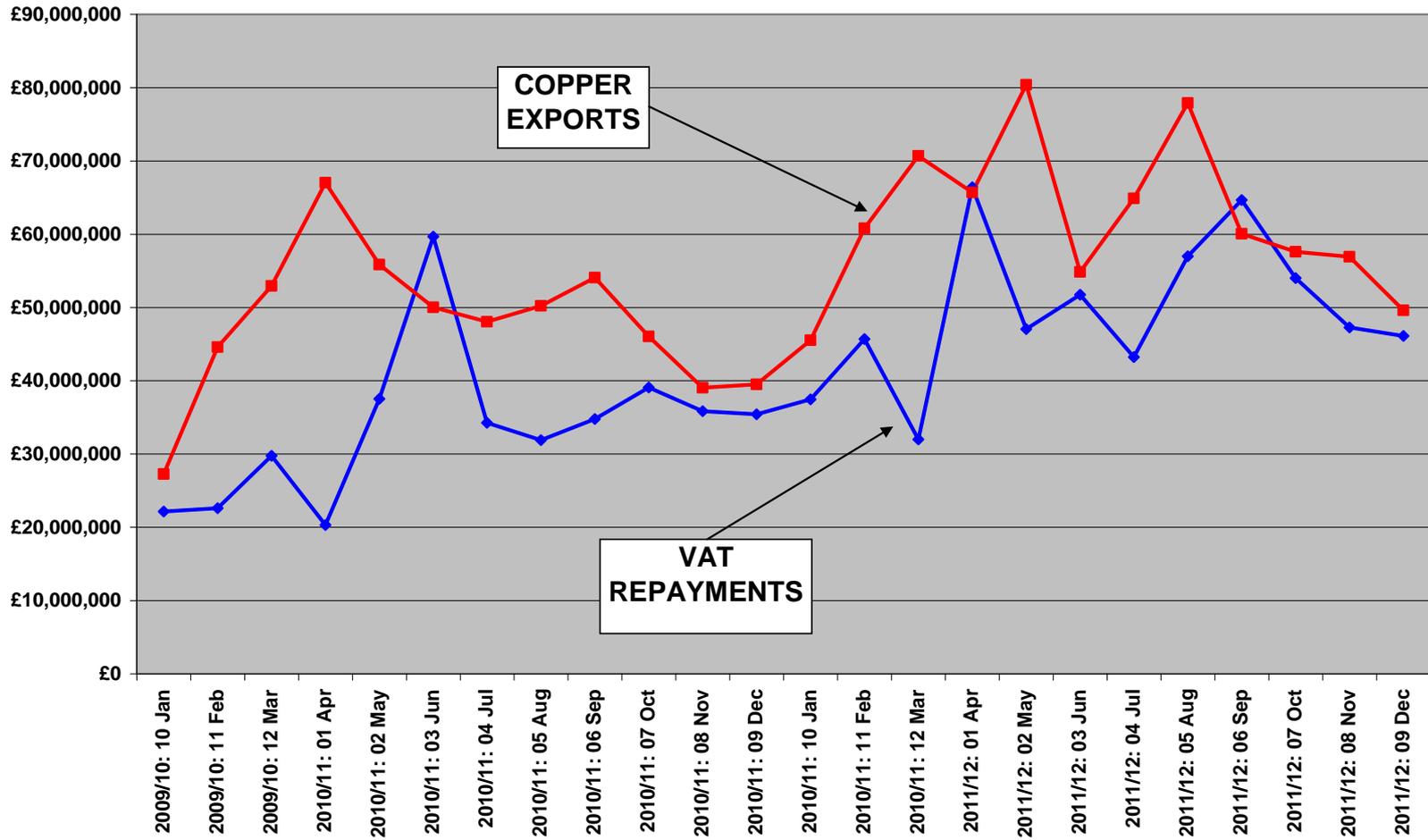
Large unregistered population

Widespread evidence of metal theft

The Scrap Metal Industry

The risks and threats to HMRC from Small and Medium Enterprises (SMEs).

VAT repayments and Copper Exports



HMRC Compliance activity in Scrap Metal sector

2. Criminal Taxes Unit - Aims:

- Closing the tax gap and minimising the harm caused by crime. Treasury/HO targets.
- Use taxation effectively against criminals and their enterprises. Financial recovery is effective reducing crime / damage it inflicts on society.
- Collaboratively working with other LEAs to investigate suspected tax offences where wide criminality is suspected.

Operation Invincible

- Tony Gray operated an unlicensed scrap yard for 18 years, no returns to HMRC
- Latterly also trading on EBay, received £230k in 18 month period.
- Gray kept no records, made in excess £2m from the business
- Joint operation CTU, police, Environment Agency (EA)
- Pleaded guilty 'Cheat', EA offences, abstracting electricity, money laundering
- Sentenced 2yrs 4months custodial. Confiscation £813k limited to net assets, included £122k cash seized at premises. Default sentence 4 yrs.
- Yard now closed.



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3. Specialist and Local Compliance – civil evasion

Scrap metal project 2009

- 221 Scrap Metal and Recycling businesses visited.
- £41m Potential Lost Tax Revenue Identified and protected.
- 1.8m Non-Duty paid cigarettes seized.
- 17 Detections of misuse of rebated diesel fuel.
- 38 Referrals for Criminal Investigation.

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4. Scotland Scrap Metal Taskforce from December 2011

Tactics used to identify evasion in the sector:

- Verifying VAT reclaimed on transactions through supply chain
- Verifying exports to EU and non-EU destinations
- Establishing identity of cash sellers in HMRC Hidden Economy
- Authenticating lifestyles of targets
- Registration of High Value Dealers under Money Laundering Regulations

Summary

- Taxation has a role to play in disrupting criminality - “Al Capone effect ”
- Trading in stolen metal can be an indicator of tax evasion
- There is a range of civil and criminal sanctions available to tackle tax evasion
- HMRC are actively working with other LEAs in the scrap metals sector to tackle tax evasion

Key areas HMRC can help address the scrap metal threat:

- Criminal investigation and prosecution of tax evasion
- Civil investigation of tax evasion
 - Assessing tax and duties
 - Interest and penalties
 - Publishing Detail of Deliberate Defaulters
 - Compliance `Aftercare` - Managing Deliberate Defaulters
- Other sanctions:
 - Insolvency
 - Securities
- Joint operational working with LEAs

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Any Questions?