Illustration of a Missing Trader Fraud Arrangement

Supply chain:

Adam's GST reporting:

Adam does not file the GST return to report the output tax or

GST of $18k was **not paid** to IRAS

Bobby's GST reporting:

Sales - $210k
Output tax - $18.9k

Purchases - $200k
Input tax - $18k

Net GST of $900 ($18,900 less $18,000) paid to IRAS

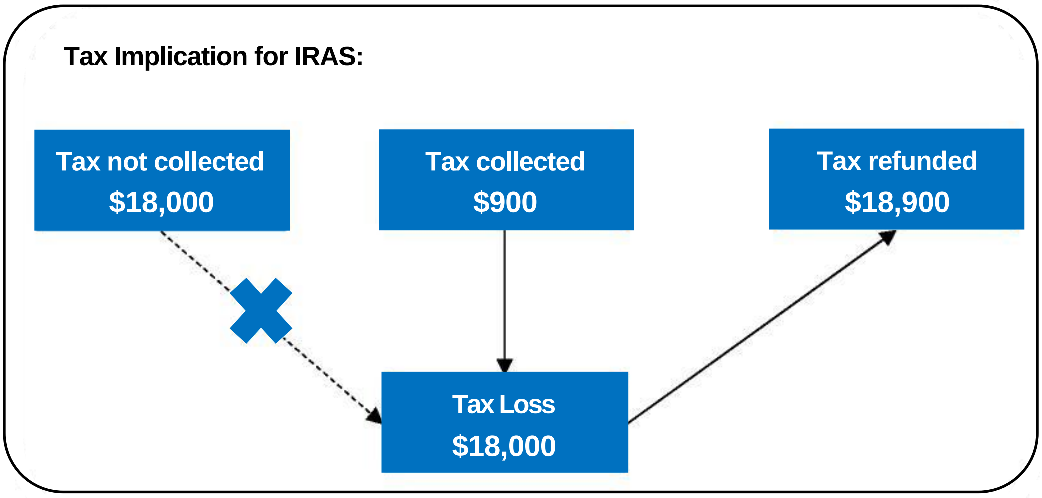
Colin's GST reporting:

Zero-rated sales - $220k
Output tax - $0

Purchases - $210k
Input tax - $18.9k

Net refund claims of $18,900 from IRAS

Legend
Transaction flow
Payment flow



Case Studies of a Missing Trader Fraud Arrangement

Scenario 1: Adam in the above illustration

Adam is approached by a friend who suggests that he registers himself as the sole-proprietor of a business on behalf of an investor. The friend explains that the investor was not able to set up the business in his own name for personal or tax planning reasons.

Adam is informed that he does not need to put in any money for the business as financing is provided by the investor. He is also told that he will be guided step-by-step on how to set up the business, apply for GST-registration and set up a business bank account.

The friend further informs Adam that he will not be involved in making business decisions and there will be a manager appointed to handle day-to-day business operations. Adam is assured that he does not have to do any work. The only thing required of Adam is to lend his name to the business and give his SingPass details for the purpose of tax filing and for the opening of the business' bank account.

In return for setting up the business, Adam is promised a monthly fee or a share of the profits generated by the business. Adam agrees to his friend's request.

By entering into this business arrangement, Adam has been drawn into an elaborate scheme to defraud Singapore of its GST collections, and he could possibly become a "missing trader", if his company does not pay over the GST it has collected.

IRAS soon detects anomalies in the tax returns of Adam's company, as well as the companies it has transacted with. Although Adam did not manage the company, he is ultimately liable for the transactions as they were carried out in his company's name. When questioned by IRAS, the friend who proposed such a business arrangement denies being involved.

Adam will be denied of GST claims of his purchases. As the company was registered in Adam's name, he will be liable for payment of any GST due to IRAS, as well as penalties, as ordered by the court.

Scenario 2: Bobby in the above illustration

Bobby is approached by a friend to invest in a business venture of buying and selling goods. He is told that he can earn a pre-determined profit margin regardless of the date, quantities or specifications of the goods.

As part of Bobby's investment venture, he can only trade in specific products and deal with specified suppliers and customers who are newly incorporated/GST-registered or has minimal trading history. Even so, Bobby is informed that there will be no risks since he will always be paid first and there will be guaranteed sales orders.

The goods will always be delivered to Bobby's company. Bobby will then deliver the goods to the local customer and collect payment from the local customer upon delivery of the goods. Bobby has to make payment to the supplier in cash or make cash cheque payments within the same day or a few days as the supplier only accepts cash.

Bobby is also told to register his company for GST and his company would be able to recover the GST paid on purchases and charge local customers GST.

Bobby agrees to the purchase and sale transactions in return for the profit promised and became drawn into this elaborate fraud scheme. As the transactions would be carried out in his name, Bobby will be liable for GST refunds illegally obtained and GST payable on transactions purportedly made in his business' name, as well as penalties as ordered by the court.

Scenario 3: Colin in the above illustration

Colin operates a trading company. A business associate tells him that if he purchases a set of goods from a ready supplier, he would be able to earn a guaranteed profit margin from the sale as there would be a ready buyer.

Colin is informed that there would also be no commercial risks as the business associate already has a pipeline of overseas customers and local suppliers with guaranteed sales orders for the goods. As the purchase and sale transactions would be executed back-to-back, Colin is told that he would not need to hold inventory. Freight forwarder will be appointed by overseas customer and he does not have to bear the freight charges. Furthermore, he would always receive payment from the customer before releasing the goods, hence, there would be no credit risk involved.

Colin is also told that as his company's annual taxable turnover would exceed $1 million due to the high volume of large transactions, his company would have to register for GST. His company would be able to recover the GST paid on purchases and charge GST at 0% on the export sales as long as he meets all the conditions set out by IRAS.

Given the risk-free arrangement, Colin agrees to the purchase and sale transactions in return for the guaranteed profit and became drawn into this elaborate fraud scheme. As the transactions would be carried out in his name, Colin will be liable for payment of GST refunds illegally obtained and will be required to account and pay for GST on goods purportedly exported as well as penalties as ordered by the court.