



**STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN**

VAT Fraud Under the Microscope and Revealing VAT Fraud Schemes Through Field Audit

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What will we cover today?



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Strategies and methods combat VAT fraud

04

- Digital tools
- Legislative tools

Potential indicators of VAT fraud

03

- Abnormal revenue or expense spikes.
- Changes in company ownership and company
 - Uncommon purchases or transaction cycles
- High-risk economic sectors



Types of VAT fraud (Case studies)

01

- Understatement of VATable revenue
- Carousel Fraud
- Fraudulent invoices
- Overstatement of VAT refund or misuse of VAT exemptions

Actors of VAT fraud

02

- Conduit (shell) companies or taxpayers
- Organized crime networks
- Intermediaries

Types of VAT frauds



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Overstatement of VAT refund or misuse of VAT exemptions

04

Unrelated purchases



Fraudulent invoices

03

This type of fake invoices is used to convert one taxpayer's "cash in the bank" into "cash on hand" and inflates its expenses.



Carousal Fraud

02

Carousal fraud is typically orchestrated by organized crime networks and is characterized by its complexity and lack of a clear endpoint.

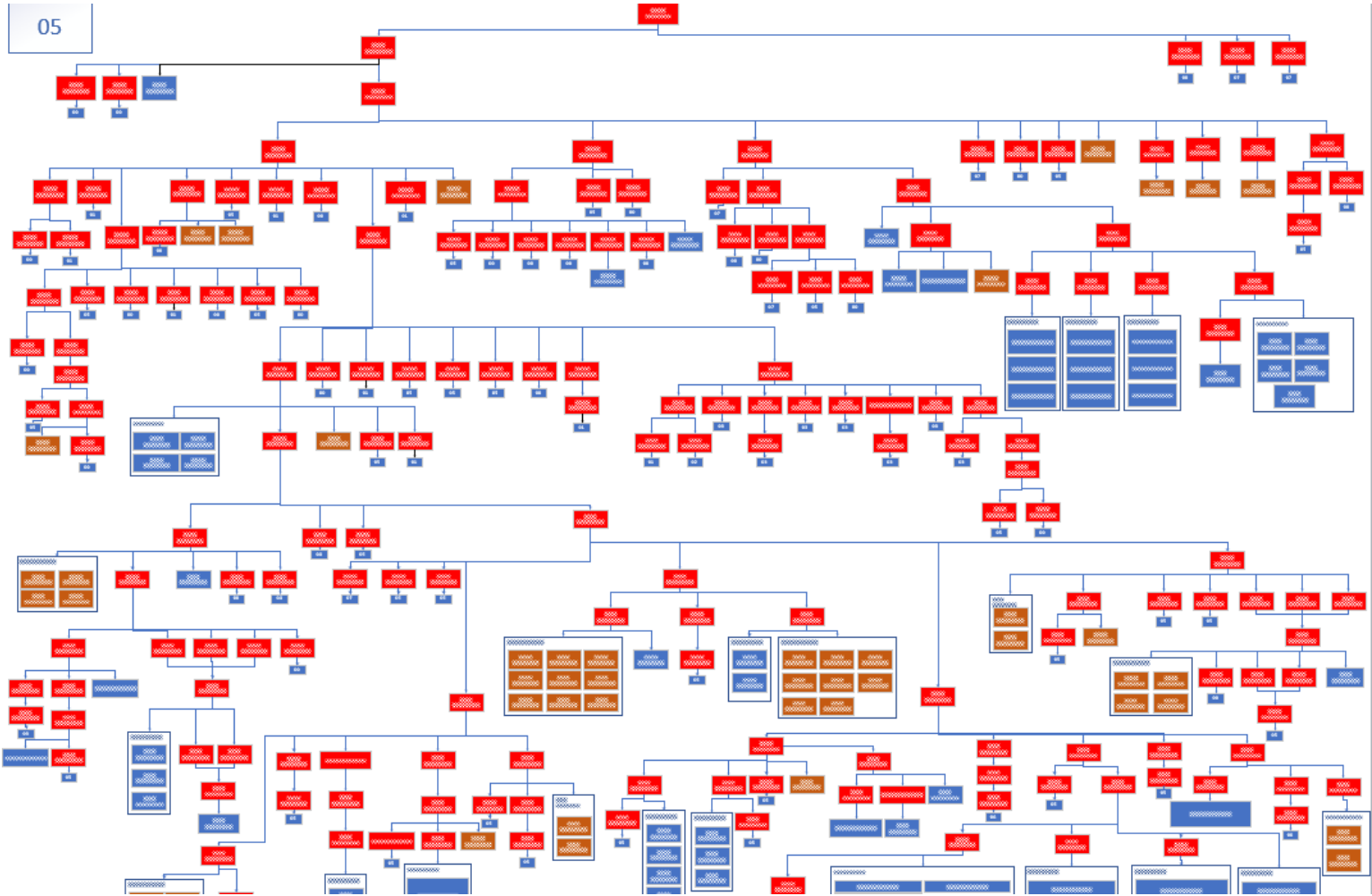


Understatement of VATable revenue

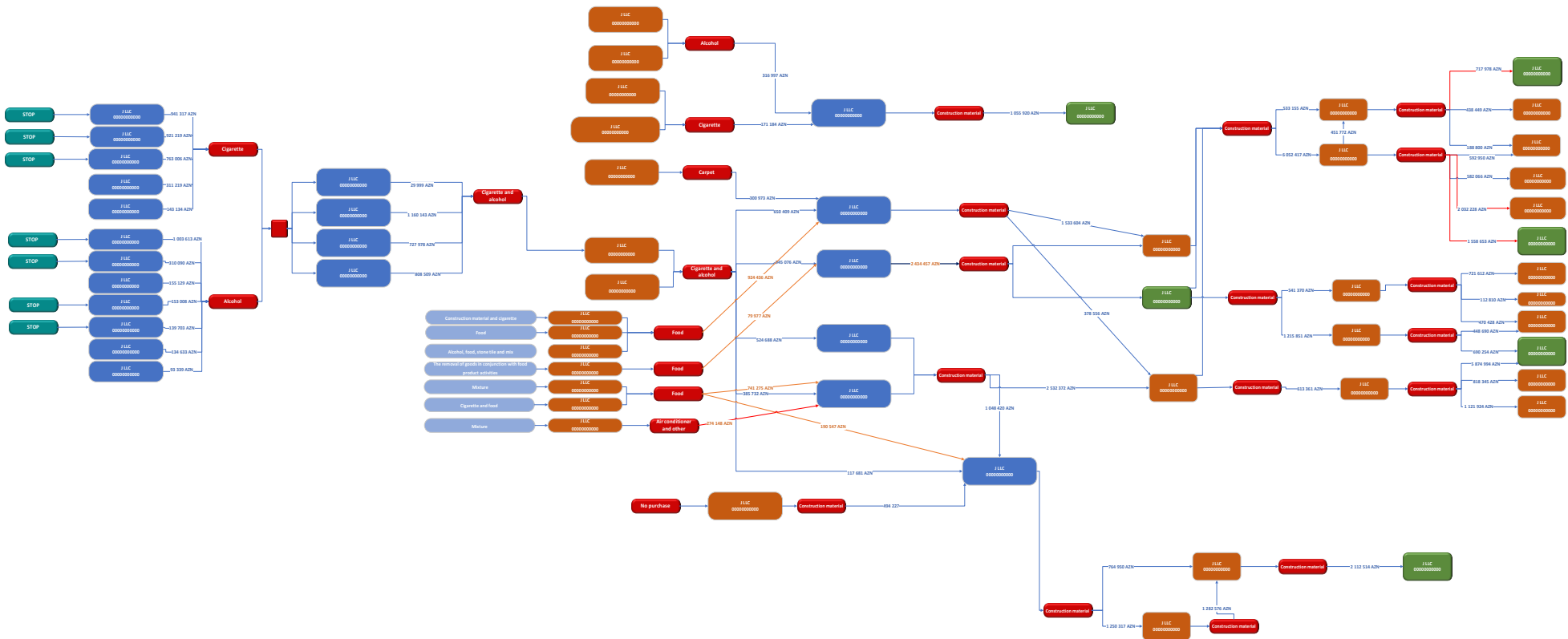
01

Taxpayers often attempt to reduce their tax liabilities by underreporting their actual turnover.

Carousel Fraud (case study)



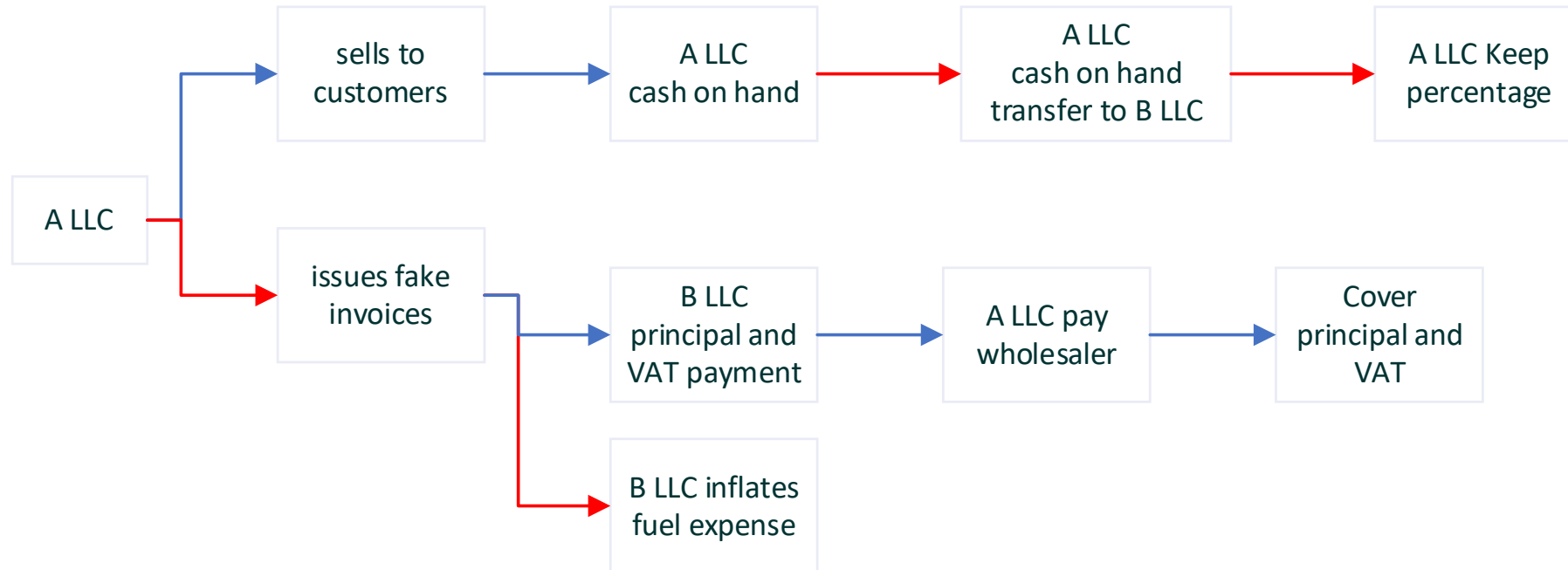
Carousel Fraud (case study) 2



Fraudulent invoices (case study)



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Conduit (shell) companies or taxpayers

Entities that do not engage in genuine business operations.

Organized crime networks

These networks are not only involved in tax evasion but may also be engaged in other illegal activities such as money laundering, fraud, or the trafficking of goods and services

Intermediaries

Companies that engage in both legitimate and fraudulent activities, making them a significant challenge for tax authorities.

Potential indicators of VAT fraud



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CHANGES IN COMPANY OWNERSHIP AND COMPANY

Multiple registrations
under a single
individual

UNCOMMON PURCHASES

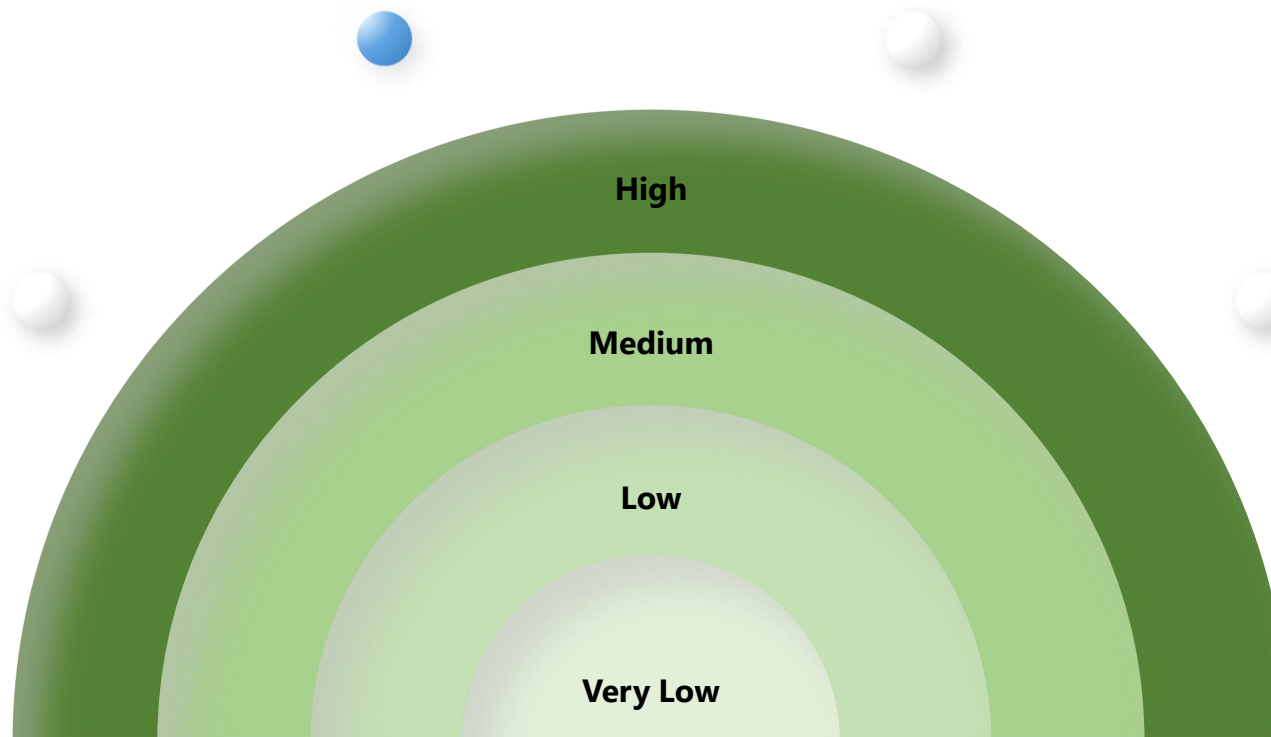
Unusual transaction
cycles

ABNORMAL REVENUE OR EXPENSE SPIKES

By comparing current
revenue and expense
figures with those from
previous periods, it is
possible to spot any
unusual fluctuations.

HIGH-RISK ECONOMIC SECTORS

Retail, cash-intensive
businesses, and sectors
with large, uncontrollable
operations like construction





Importance of VAT compliance



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- Amount of Total Tax revenue in 2023 is 22 471 billion AZN (~13 218 billion USD)
- VAT Tax revenue in 2023 - 8 128 billion AZN (~4 787 billion USD)



- ❖ Conduct a business analysis of the company
- ❖ Identify the essence of the transactions
- ❖ Assessment of the transactions
- ❖ Investigation of the corresponding bank accounts and VAT deposit accounts
- ❖ Cross-check of transactions – «Small research» of the 3rd parties

Real VAT Fraud cases during the tax audit



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Imagine the pipe manufacturer, which in reality does not produce any pipe –
ONLY ISSUES INVOICES!

RISKS AND ACTIONS

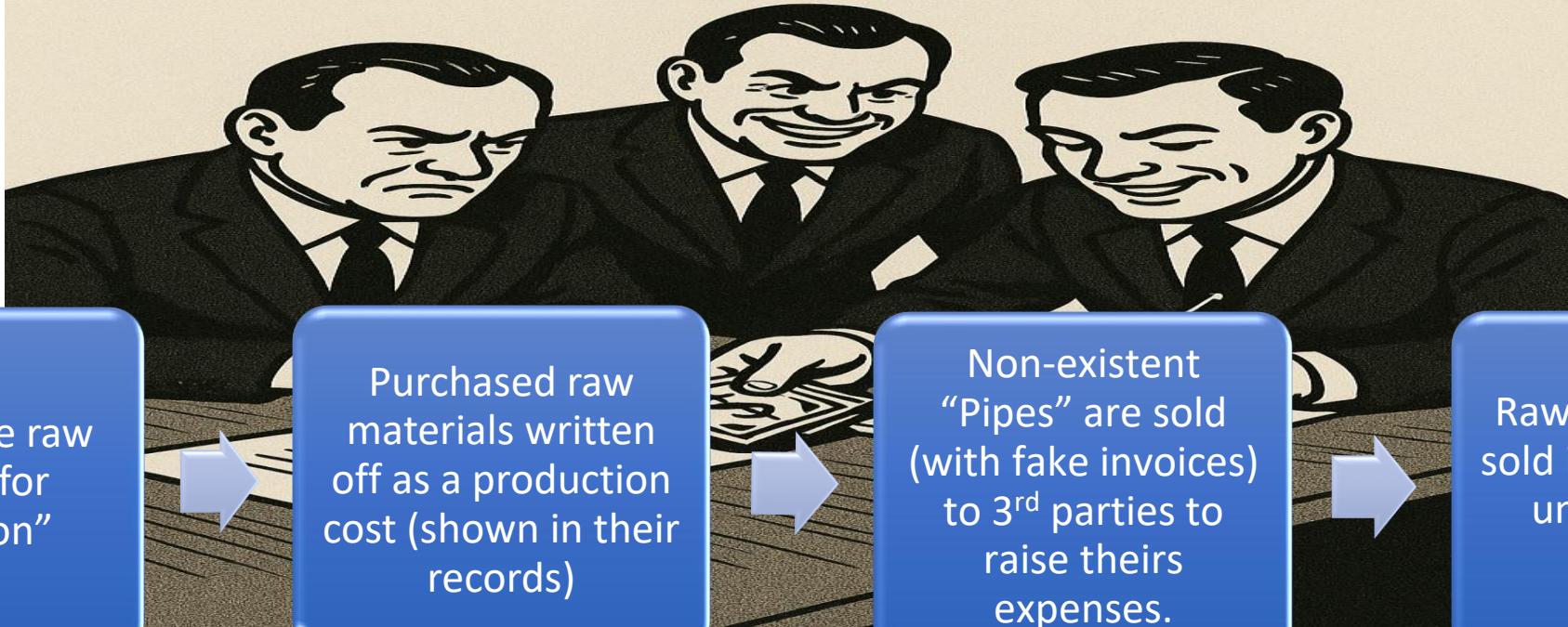
- Only 12 employees for the whole manufacturing process
- Discrepancy between purchased raw materials and output

☐ Site Visit

☐ There is no any equipment to produce a single pipe



WHAT THEY ACTUALLY DID?



Imported the raw materials for "production"



Purchased raw materials written off as a production cost (shown in their records)



Non-existent "Pipes" are sold (with fake invoices) to 3rd parties to raise their expenses.



Raw material then sold illegally to earn unofficial cash income

Real VAT Fraud cases during the tax audit



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Extension of the receivable period

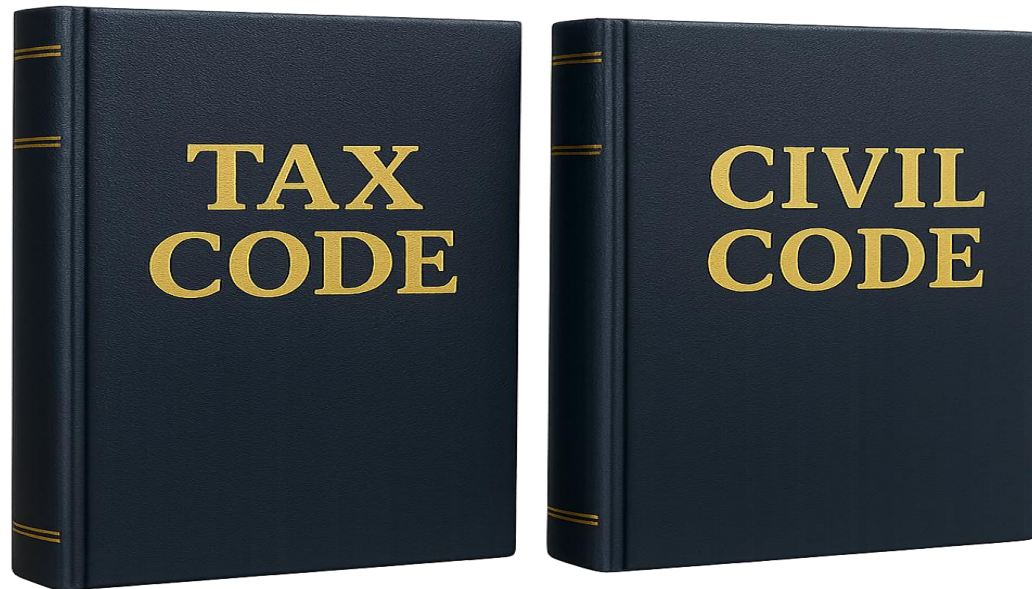
Real VAT Fraud cases during the tax audit



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According Tax Code of Azerbaijan :

166.1.3. - For receivables arising from the provision of goods (works, services) - the time of expiration of the claim period is considered the time of taxation (VAT).



According Civil Code of Azerbaijan :

373.2 - The statute of limitations for contractual claims is three years and for contractual claims related to immovable property the statute of limitations is six years.



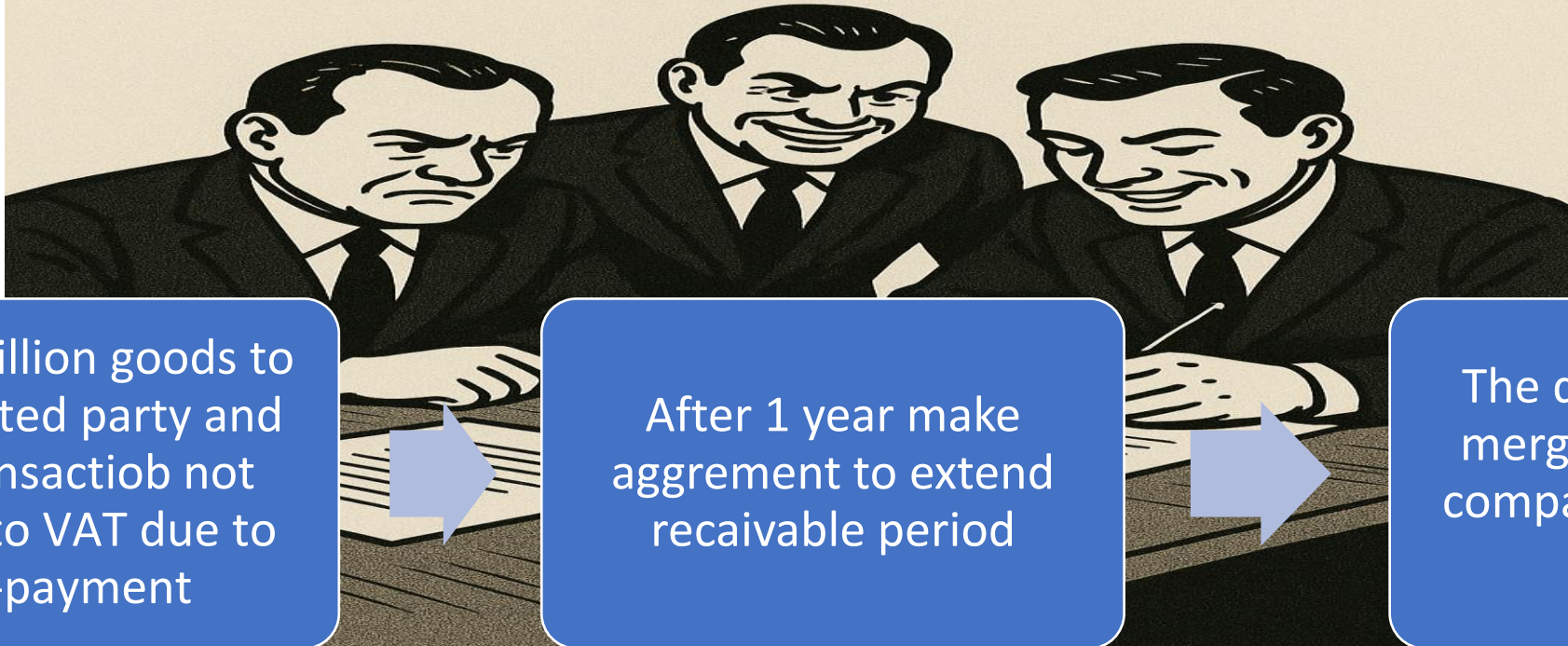
RISKS AND ACTIONS

A receivable account from a subsidiary remained unchanged for more than three years.

Application from a subsidiary for the merger of two enterprises

Make some meetings about with judicial authorities and independent law firms.

WHAT THEY ACTUALLY DID?



Sell 10 million goods to his irrelated party and this transactiob not subject to VAT due to non-payment

After 1 year make aggrement to extend recaivable period

The debtor company merges with another company to evade VAT liability

Thank you for attention

www.taxes.gov.az

