

OHR and CAFAO to Launch Alliance to Fight Sales-Tax Fraud and Money-Laundering

Sales-tax fraud and money-laundering in Bosnia and Herzegovina have reached “staggering proportions”, the High Representative, Paddy Ashdown, told journalists in Sarajevo today. The High Representative spoke at a briefing on tax fraud given by the Head of the European Union’s Customs and Fiscal Assistance Office (CAFAO), Allan Jensen. The High Representative said that the OHR would join CAFAO and other organisations to forge an anti-fraud alliance.

“The OHR and the IJC through its investigative division, will examine the conditions in which ghost companies – the preferred criminal vehicle for tax fraud and money-laundering – have been registered,” the High Representative said. “This will determine whether the courts complied with their legal requirements. If it transpires that they did not do so, appropriate disciplinary action will be taken against any judge responsible for these irregular registrations.”

“Criminal elements have hijacked a weak registration system and a fractured tax system controlled by three tax authorities,” he said, noting that the scale of fraud is “unbelievable”.

“When you see unpaid teachers, decrepit schools, school-kids without books, hospitals that are dirty and ill-equipped, doctors who are underpaid and nurses who are at the end of their tether because they can’t make ends meet – think of this tax system. This system is responsible. We will work with the new governments to change a system that is clearly rotten and clean it up,” the High Representative said.

“We need to replace the tax system that made this fraud possible – introducing VAT to replace Sales Tax is part of the

answer to this," he said.

Estimates put the losses to citizens through sales-tax evasion at KM500 million since the beginning of last year, and the value of money laundered in related scams, through fictitious companies and compliant bank officers, may be as much as KM3 billion every year.

"The criminals have clearly exploited the weaknesses in the tax systems that allow goods to be traded duty free through a sales chain consisting of importer/producer, wholesaler and retailer," Mr Jensen said. "Only when the goods are finally sold to the consumer do taxes have to be paid by the seller. Investigations have revealed that a lot of those wholesalers that importers and producers in BiH have sold their goods to, according to their invoices, are phantom companies and do not actually exist, although they are registered with Courts and have their own bank accounts. This means that when Tax Authorities show up at an address to make a tax inspection they do not find a company and, similarly, do not find the goods that were allegedly sold to the phantom wholesaler. Therefore, such goods can subsequently, without risk, be distributed on the black market."

The High Representative noted that the existing dual sales-tax system "is wholly discredited and has become a playground for criminality." The result of this system is that hundreds of millions of KM that should be going to pensions, schools and hospitals are ending up in criminal hands. "We need to unite with the judicial authorities, the leading banks and the tax administrations to destroy this system," he said. "We need to tackle the legal irregularities, track the flow of money, and force those who have used these phantom companies to pay their taxes. We need to track this system right back to the masterminds who initiated it and got very rich by robbing the citizens: the people who stand behind these phantom companies."