Bottling Up Trouble

22 Jul 2013

The recent case of a £5M wine fraud highlights the drink's appeal to those looking to make unlawful gains. Which is why anyone dealing in wine needs to keep a clear head.

There can be little doubt that HM Revenue and Customs (HMRC) will be raising a glass to toast its latest success; the jailing of two men for a £5M duty and VAT evasion on wine.

While HMRC is celebrating, 54-year-old Robert Parma and Alberto Mori, 53, are beginning prison sentences of six years and seven months and seven years respectively. Their crime was to import wine from Italy and sell it on without paying more than £5M in duty and VAT. The duo imported wine using the UK's duty suspension scheme; which is a wholly legitimate scheme when used in accordance with the law. Alcohol can be stored and moved between bonded warehouses within the European Union without the payment of excise duties. Once the alcohol is to be taken to retail outlets then the excise duty has to be paid. But Parma and Mori took advantage of the scheme by using the same delivery documents again and again for different consignments and avoided paying duty by diverting the wine from the bonded warehouse. Mori, a London-based wine merchant, then sold the wine through a network of UK wholesalers with Parma's help. As a result, they avoided paying duty.

London Office
36 Whitefriars Street
London
EC4Y 8BQ
+44 (0)203 947 1539
enquiries@rahmanravelli.co.uk

Midlands Office
3 Brindley Place
Birmingham, West Midlands
B1 2JB
+44 (0) 121 827 7985

Northern Office
Roma House, 59 Pellon Lane
Halifax, West Yorkshire
HX1 5BE
+44 (0)1422 346 666

Rapid Response Team
24 Hour Emergency Contact
0800 559 3500

Fax +44 (0)1422 430 526
DX16001 HX1

HMRC found out that Parma's import company was providing cover for the fraud, with the duo going to great lengths to avoid any incriminating paperwork falling into official hands. Skype messaging was used to arrange wine movements from Italian warehouses, drivers were given code words to use when picking up loads and elaborate supply chains were used so as not to provoke suspicion. Their plans, however, were discovered when an HMRC search uncovered more than 114,000 litres of wine and records of the fraud on company computers and memory sticks. Further investigations showed that wine appeared to be stored at the UK bonded warehouse for exceptionally long periods of time.

The duo skipped bail after their arrest and returned to Italy, only to be extradited to the UK last year. After their trial and imprisonment, HMRC's Assistant Director of Criminal Investigation David Margree said that he believed Parma and Mori's sole intention when importing the wine was to "rip off the honest tax payer to line their own pockets".

The HMRC's claim is a valid one. But it is possible that both defendants were involved in the wine trade – or at least importing goods from Italy – long before they carried out their fraud. In that way, they may differ from many people accused of fraud in relation to wine. There now appears to be a trend in fraud that has seen many of those involved in VAT and duty evasion turning their attentions to wine. Many people committing similar wine-related crimes to Parma and Mori are far more likely to have been carrying out such schemes involving mobile phones, designer clothes or high-tech gadgets in years gone by. Then, such high-value items offered what appeared to be the best returns.

In previous years, such goods would be imported VAT free from EU countries, sold on at prices that included the VAT but the seller would then disappear before paying the VAT he received when selling the goods. This system was often made more elaborate and difficult to detect by using a whole series of companies and, in some cases, the goods were actually re-exported back to the EU, with the exporter reclaiming VAT that had never actually been paid. But the basic principle involved receiving VAT on goods but never paying it to HMRC – traditional tax evasion, or Missing Trader Intra Community (MTIC) Fraud. While Mori and Parma do appear to have been importing wine with a view to selling it and avoiding duty, the people moving around the likes of mobile phones and designer clothes were more interested in keeping it moving through a chain of deals that would make it harder to detect MTIC fraud. And now it would appear that such people have come to see wine as something that they can use to perpetrate similar frauds.

Since 2007, VAT has been levied on the purchase – rather than the sale - of high value goods such as mobile phones and CPU’s. This means that by importing such goods, the importer now has to pay VAT on the goods immediately rather than when they sell them in the UK. The inevitable result has been a large drop in the recorded numbers of MTIC frauds; mainly because they are now harder to carry out. As a result, those carrying out such crimes started to look for other products they could import as a way of making illicit gains.

The nature of fraud means that it is always in a state of change. If a number of people are carrying out a large number of similar, large-scale frauds

London Office
36 Whitefriars Street
London
EC4Y 8BQ
+44 (0)203 947 1539
enquiries@rahmanravelli.co.uk

Midlands Office
3 Brindley Place
Birmingham, West Midlands
B1 2JB
+44 (0) 121 827 7985

Northern Office
Roma House, 59 Pellon Lane
Halifax, West Yorkshire
HX1 5BE
+44 (0)1422 346 666

Rapid Response Team
24 Hour Emergency Contact
0800 559 3500

Fax +44 (0)1422 430 526
DX16001 HX1

those activities will, eventually, attract the attention of the authorities. If the authorities cannot obtain enough evidence to secure the convictions of everyone it believes was involved in such frauds it will at least try and prevent them happening again; as was the case with the aforementioned 2007 introduction of the reverse charge on high-value goods like mobile phones and CPU's. The people carrying out the fraud then look to find other goods that are not subject to such restrictions. Wine now appears to be one of them.

At Rahman Ravelli, we have first-hand experience of wine-related cases. We are currently involved in a case that is set to go to trial at Southwark Crown Court this month. The prosecution case is based on allegations of fraud involving wine investment schemes and the people charged were arrested as part of a long-running police investigation named Operation Iceman.

For the person looking to carry out duty or VAT fraud, wine has a number of distinct advantages over other products. Firstly, it is not subject to the reverse charge. Secondly, the importation of wine is a regular, large-scale activity that could, in theory at least, give someone plenty of cover when looking to commit such fraud. Thirdly, wine has longevity that many imported goods do not have. A good wine can be kept for many years, can fetch a higher price after such a length of time and is not subject to the constantly changing landscapes of fashion or technological progress, as items like CPU's, mobile phones or designer clothes are. And fourthly, while wine may not have the instant appeal of such goods, it is extremely attractive to connoisseurs, snobs and people looking to make a long-term investment. All these reasons have made wine a very attractive proposition for the person looking to fraudulently benefit from fooling HMRC.

But it is for exactly these reasons that anyone who is – or wants to be – involved legitimately in the wine trade has to be careful. It goes without saying that those people who bought wine from Mori and Parma will have faced at least preliminary questions from HMRC or other agencies when their fraud came to light. Failure to make the most basic checks on who you buy your wine from can lead to such unfortunate situations. Should such a situation escalate and you find yourself under investigation, then the only genuine option available is to seek the help of, lawyers who are specialists in fraud cases. Only fraud specialists can assemble the right defence team, summon the appropriate investigative or accounting expertise, analyse the prosecution evidence and negotiate expertly with the authorities to ensure anyone arrested in such circumstances is able to give the most honest and open account of their activities.

The Latin phrase "In vino veritas" means that in wine there is the truth. But, as we have explained here, that is not always the case. For that reason, a little caution can go a long way towards ensuring you are toasting success rather than drowning sorrows.