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Increasing transparency of 2nd hand car transactions

According to the data of the Lithuanian State Tax Inspectorate (STI, *lithuanian – Valstybinė mokesčių inspekcija, VMI*), used car trade, repair and car part trade sectors are classified as one of the highest risk sectors for tax evasion. Based on the results of the concluded study in the year 2018, the VAT gap within the sector for trade of used cars was more than 38 million euros. Therefore, STI is especially keen on performing monitoring and control activities within the present sector and is always on the lookout for tools or means to reduce the scale of the shadow economy.

Key problem: fictitious transactions

Since 2018, the present sector saw over 2.2 thousand checks during which instances of more than 8.8 million Euros of additional payable taxes were declared. Furthermore, during the monitoring and control period, taxpayers declared additional payable taxes of 700 thousand Euros.

Most frequent infringements are as follows: unregistered trade of used cars, unjustifiable application of the 0 percent VAT rate, keeping of VAT return forms, hidden income. However, the key problem within the car trade sector is fictitious transactions.

Fictitious transactions allow specifying for a much lower sales price of the car within the sales agreement, as well as counterfeit sales agreements (*kaufertags*) for the purchase of a foreign car. By counterfeiting the information of the seller, these sales agreements specify that the used car has been purchased directly from a person living abroad and allow for the omission of the information of the real seller who - in turn - is able to avoid legal and financial liability.

These cases allow for an unfair advantage within the used car market over honest salespersons, as well as occurrence of unfair conditions and competition, as well as a significant impact towards the scale of shadow economy. The cases also undermine the final buyer - who without their knowledge - aids in the counterfeiting of documents. This way the buyer becomes a part of the financial scheme for omission of payable tax, suffers losses while trying to sell the purchased car, as well as loses any right to guarantees.

Vehicle owner's declaration code: the mean of traceability

In order to resolve the problem of unfair salespersons operating within the used car trade sector, a cross-institutional working group has been formed in which STI was an active participant. The working group reached a significant milestone: starting from May of 2021, a new accounting framework for vehicle owners

(TPSAIS) has been developed with changes in the legislation for all cars present within the country to bear a unique vehicle owner declaration code (SDK, *lithuanian – savininko deklaravimo kodas*). The code allows connecting a specific car and trace it back to their owner within the Republic of Lithuania.

Prior to the entry of the vehicle to the Republic of Lithuania, the owner of vehicle is required to have a valid SDK. The registration and sale of vehicle is not allowed without SDK and it is required to be published in all vehicle advertisements. Key part: the system allows for monitoring and recording of the actual change in ownership of the car. Both the buyer and the seller must declare the sale/transfer of rights to ownership of the car towards the new owner by generating a new SDK.

Following the implementation of the new system, the possibility to perform monitoring and control activities at a much broader scope became available. SDK monitoring and checks-ups are not only performed by STI but also by five additional institutions: Police, Customs, Financial Crime Investigation and State Border Guard Service, as well as Lithuanian Transport Safety Administration. Monitoring and control activities are performed on roads, car trade lots and marketplaces, as well as by checking internet advertisements on respective portals and social networks.

Initial results

Following the implementation of SDK, a tolerance period until the 1st of September was given as well, aiming to help the owners of cars to transfer to the new system. The goal of the performed monitoring and control activities was not to fine but inform vehicle owners. By checking more than 6 thousand of vehicles on roads and parking lots and more than 22 thousand of vehicle advertisements on the internet, almost 21 thousand of total cases resulted in missing SDK and/or failure in public disclose of the SDK. The offenders received warnings and their information has been logged for repeat investigations following the end of the tolerance period.

The newly implemented system has resulted in a positive impact following just a couple months after launch. The system helped to reduce the scale of shadow economy within the car trade sector. This is highlighted by the increase in number of salespersons undertaking in registered activities of vehicle trade: by comparing the month of October of the year 2021 to the same month of the year 2020, the registered number of car trade activities increased to 411 citizens and 176 companies in 2021.

Following the end of the tolerance period, TPSAIS highlighted 22 persons possibly engaged in operation of unregistered car trade. During the monitoring and control activities, 109 thousand Euros of undeclared income have been disclosed. Furthermore, six persons have registered their conducted operation of car trade.

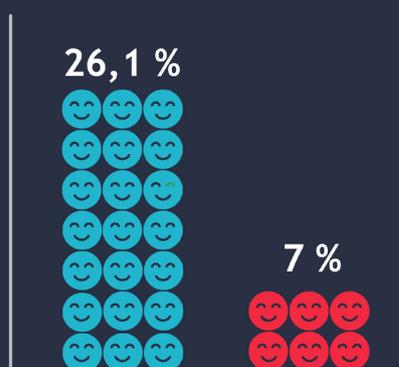
By checking internet advertisements, a number of persons publishing a wrong/invalid SDK were found. For example, following the identification of an internet advertisement with a fake SDK a fictitious purchase operation was organized and took place. The person responsible for selling and showing the car not only offered to specify a much lower price for the sale of the car within the sales agreement but also to conclude the sale by signing a '*kaufvertrag*' from the Netherlands which was filled in and signed by the same person in place of the actual foreign person. A pre-trial investigation by the law enforcement authority was started for the aforementioned case.

Car dealership industry in Lithuania 2020 - 2021

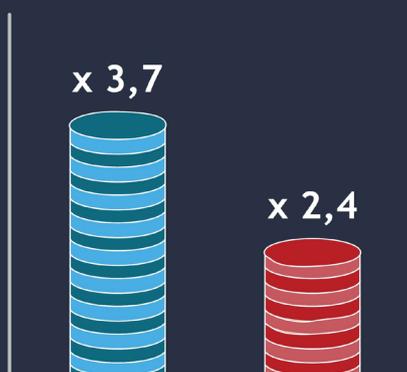
Revenue growth



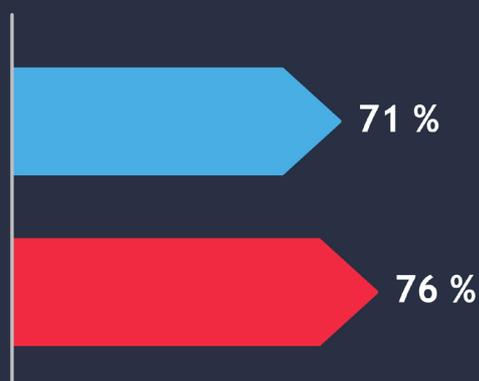
Average wage growth



Tax revenue growth



VAT obligations growth



 Controlled taxpayers  Industry with uncontrolled taxpayers

Development of new control tools

SDK provides possibility to identify persons offering cars for sale from the very beginning of the trade process, as well as specific vehicles (in accordance to their make and VIN number) and offered sales price. TPSAIS allows for checking this data against the data received from other sources (e.g., market price, database performing roadworthiness tests) and implementation for a new analysis system based on it.

Implementation of a new system is also planned in the near future that would allow for the evaluation of the authenticity of the price entered within the sales agreement and persons. Persons - possibly specifying a fictitious price within the sales agreement - will have to justify the aforementioned price. STI will also focus their attention more on sales agreements concluded under 'kaufvertrags' and will aim to check the authenticity of such sales agreements by close cooperation with the owners of the purchased car.

Finally, a new system for car owner will have a significant impact towards the development of a fair trade market. SDK is not only a tool allowing for control and monitoring authorities to identify the car salespersons causing the highest risk within the sector but will also allow the persons purchasing the car to check, whether the car to be purchased is declared as required and the salesperson is acting in according with the applicable requirements.