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29 VAT risk assessment – better use made of information generated by inspections on company premise

The Federal Ministry of Finance has successfully ensured that the German states are enabled to make better use of the results generated by inspections on company premises for assessing VAT risks. For this purpose, it established, jointly with the states, the technical prerequisites needed for doing so and closed information gaps. New business processes make sure that risk-related issues do not remain exempt from inspection.

The tax offices use a risk management system (RMS) for processing preliminary VAT returns. This IT system assists the tax offices in their efforts to avoid VAT losses by assessing the default risk and enabling risk-oriented inspections to be performed. The necessary data are also obtained through special VAT inspections or general tax inspections on company premises. As a rule, the special VAT inspections (which do not cover other taxes) should be carried out in a timely manner. In contrast, tax inspections on company premises look into the comprehensive tax situation of the taxable person in question and may cover all taxes.

We found that general tax inspections on company premises also reveal facts that may be relevant for VAT risk assessment. However, this information cannot be adequately used for VAT risk assessment because it is not available in electronic format. The Federal Government and the states should therefore establish the technical prerequisites for feeding the relevant information from the inspection reports on company premises into the RMS.

Moreover, we found that the tax offices waived special VAT inspections if a general tax inspection on the premises of the taxable person was planned. However, since the units in charge of processing preliminary VAT returns did not systematically check whether the inspections on company premises had actually been carried out, high risk cases may not have been inspected. We therefore recommended that the units in charge of processing preliminary VAT returns be informed whenever a proposed inspection on company premises is cancelled.

The Federal Finance Ministry followed our recommendations by establishing, jointly with the states, the technical prerequisites for the electronic communication of reports on tax inspections carried out on company premises. The states may use the new IT component as from September 2017. This is a step in the right direction.

Furthermore, the Federal Government and the states have jointly adapted business processes. As a result, the units in charge of processing preliminary VAT returns are notified of the cancellation of scheduled inspections on company premises. This makes sure that the tax offices can initiate further inspection action and that VAT risks do not remain uninspected.