

HMRC targeting supply chain fraud – are you at risk?

RPC

What every business needs to know

HMRC has significantly increased its scrutiny of supply chain integrity as part of its ongoing efforts to tackle fraud, particularly within sectors deemed high risk, such as construction, labour supply, wholesale, and import/export businesses. These sectors are particularly vulnerable due to complex subcontracting chains, cash-based payments, and the use of temporary labour.

As businesses seek to minimise costs and maximise efficiency, the temptation to take shortcuts or overlook potential red flags in supply chains can result in significant tax, legal, financial, and reputational risks. This briefing provides an overview of supply chain fraud and offers key guidance to help businesses identify and mitigate these risks.

HMRC's supply chain fraud focus areas

- **VAT fraud/missing trader fraud:** goods or services provided adding VAT to the supply price, but supplier disappears without accounting for the VAT to HMRC.
- **Labour fraud:** PAYE and NIC in the labour supply chain not being accounted to HMRC.
- **Fake suppliers:** companies or individuals impersonating legitimate businesses in order to divert funds or evade paying taxes.

HMRC's approach

In cases where supply chain fraud is suspected, HMRC adopts a robust enforcement strategy. Even where a business is not the direct perpetrator of the fraud, it may still face serious consequences if it has failed to take reasonable precautions. HMRC focuses on identifying fraudulent activities and holding all connected parties accountable.

Key actions taken by HMRC

- **Investigate:** HMRC will launch detailed investigations into the supply chain, including tracing transactions in the supply chain in order to uncover missing links, missing traders and fraudulent invoices.
- **Deny VAT reclaims:** pursuant to the legal principle established in the case of Axel Kittel & Recolta Recycling SPRL, a taxpayer who claims input tax on transactions which they “knew or should have known” were connected with fraudulent evasion of VAT can be denied entitlement to the right to claim that input tax.
- **Impose penalties:** where transactions are connected to fraud (either knowingly or unknowingly) businesses may face financial penalties. In some cases, this can result in significant liabilities, even if the fraud was committed by a third party supplier.
- **Criminal liability:** in more serious cases, supply chain fraud can lead to criminal prosecution for directors, officers, or business owners involved in knowingly facilitating fraudulent activities. There could also be criminal liability for corporates who have failed to prevent the facilitation of tax evasion.

HMRC's expectations of your business

Businesses must demonstrate that they have taken “reasonable care” in verifying their supply chains. You can be held jointly and severally liable if a fraudulent party is identified in your supply chain – even if you are not directly involved.

To avoid being unwittingly caught up in fraudulent activity, businesses should:

- **vet their suppliers:** conduct due diligence on all new suppliers, including background checks, references, and an audit of their financial records. Use reliable trade and credit rating agencies to assess their legitimacy. Ensure workers are correctly registered for VAT, PAYE and NIC
- **review documentation carefully:** always verify that invoices, contracts, and other documentation are legitimate and accurate. Look for inconsistencies or red flags such as unusually high discounts, or requests for payments outside normal procedures
- **track their supply chain:** maintain transparency across the entire supply chain. Implement tools or systems that allow you to track goods and services throughout the process and ensure that payments are linked to actual deliveries
- **monitor VAT reclaims:** regularly review VAT claims and ensure that all VAT paid is for genuine, traceable transactions. Be wary of unusually high or suspicious claims, particularly when they involve suppliers or transactions that are not part of your regular business activity
- **train staff:** educate employees on the risks of supply chain fraud and encourage them to report any suspicious activity. A culture of vigilance can help identify fraudulent behaviour early before it escalates
- **ensure robust contracts:** ensure that contracts with suppliers clearly define the terms of goods and services provided, including delivery schedules, payment terms, and provision for audits
- **regularly audit and review:** regularly audit your supply chain and financial records. Identifying and addressing discrepancies early can help prevent larger issues developing further down the line
- **engage with legal and tax experts:** if in doubt, consult with a lawyer or tax adviser with the necessary expertise to ensure your business complies with all regulations and that your supply chain processes are robust and fit for purpose.

Key takeaway

Supply chain fraud is an increasing threat to businesses of all sizes, with potentially devastating financial and reputational consequences if they are unwittingly caught up in it. HMRC's stance is clear: businesses must take all reasonable steps to ensure their supply chains are free of fraudulent activity, or they risk significant tax liabilities, penalties and reputational damage.

To protect your business, it is crucial that you vet suppliers, remain vigilant in relation to documentation and payments, and consult experts when needed. Taking the right precautions will help ensure full compliance and safeguard your business.

Specialists

130+
Partners

490+
total lawyers

1,140+
people

How we can help

We are a market-leading tax dispute resolution team with extensive experience advising on all aspects of supply chain fraud. From HMRC investigations to proactive compliance, we help businesses navigate complex tax risks with confidence.

Our expertise includes:

- representing clients in HMRC enquiries and disputes, including missing trader (MTIC) fraud and labour fraud cases
- conducting supply chain risk assessments to identify and mitigate risk
- designing robust risk controls and compliance frameworks aligned with HMRC expectations
- assisting with responding to HMRC ‘nudge’ letters
- supporting voluntary disclosures to HMRC and remediation strategies
- delivering training and governance advice to strengthen ongoing compliance.

Contact [Michelle Sloane](#) or [Alexis Armitage](#) if you have any queries or wish to discuss anything further.



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