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VAT SELF-ENFORCEMENT AND INVOICE FRAUD

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Abstract

This integrative review examines why invoice-credit value-added tax (VAT) supports compliance while remaining vulnerable to fraud. Research and institutional sources are synthesised through documentation, cross-party verifiability, credit realisation and administrative validation. Third-party information deters concealment, but fabricated inputs, collusion and non-remittance persist. Digital records support enforcement through effective verification; mistakes and legitimate credits complicate interpretation. The framework distinguishes consistency, transaction substance, entitlement and collection, with Albania as an institutional illustration. Evaluation must consider sustained collections and legitimate input-tax recovery.
Keywords: *value-added tax; self-enforcement; invoice fraud; input-tax credit; third-party information; electronic invoicing*.

Introduction

Invoice-credit VAT encourages documentation of eligible inputs and limits cascading through deduction and refund rights, although implementation departs from theory (OECD, 2017; Brockmeyer et al., 2024). Invoices supply information and support credit claims. Their evidentiary value can deter concealment, while their financial value can encourage fabrication. Fictitious invoices confer no lawful entitlement.

When do these functions reinforce compliance or facilitate fraud? Chilean paper-trail deterrence (Pomeranz, 2015) and Pakistani invoice mills (Waseem, 2023) address different mechanisms. The analytical task is to connect them without equating consistent reports with genuine transactions or valid credits with collected tax. This synthesis identifies distinct enforcement outcomes, illustrated through Albania's reporting arrangements.

Method

Following integrative-review principles (Torraco, 2005; Snyder, 2019), purposive retrieval combined foundational research with updates through 4 October 2026. Publisher

records, author repositories and official websites were searched for VAT self-enforcement, third-party information, withholding, invoice fraud, digital reporting and refunds. Selection prioritised mechanisms, identifiable designs and institutional relevance. The review is non-exhaustive, without a systematic protocol or formal risk-of-bias assessment.

Studies are compared by setting, tax, design and outcome, distinguishing causal estimates from associations, theory and legal interpretation. Estimates are not pooled; no new data or econometric model is introduced. Error, fraud, liabilities, credits, refunds and collections remain distinct. Official documents describe Albania's reporting arrangements, not their effectiveness.

Evidence and theoretical foundations

Self-enforcement describes private reporting incentives that assist administration. Two randomised experiments involving more than 400,000 Chilean firms show weaker additional enforcement effects where paper trails exist and identify upstream spillovers (Pomeranz, 2015). Danish income-tax evidence (Kleven et al., 2011) and a theory of firms as fiscal intermediaries (Kleven et al., 2016) explain third-party information's value without establishing invoice authenticity.

Trading links transmit incentives. De Paula and Scheinkman (2010) combine theory and Brazilian survey evidence on chains of formality. Staggered Indian VAT adoption reveals stronger compliance effects in upstream industries supplying businesses (Hoseini & Briand, 2020). Bellon et al. (2023) identify e-invoicing diffusion and compliance spillovers in Peruvian trading networks, extending analysis beyond isolated taxpayers.

Taxing inputs used by registered Pakistani firms increased reported sales (Waseem, 2022). Upstream collection encourages input-tax recovery through declared activity. This differs from withholding by purchasers. Final consumers lack deduction rights. São Paulo's reward and verification programme increased sales reporting and revenue net of rewards (Naritomi, 2019), addressing this gap.

Ugandan VAT and customs records reveal mistakes that increase firms' own liabilities (Almunia et al., 2024), qualifying explanations based solely on evasion. Diagnosis must precede correction, assistance or investigation.

Credit claims create vulnerabilities beyond concealment (Keen & Smith, 2006; Keen, 2007). In five Pakistani industries, roughly two-fifths of overclaimed refunds arose from invoice-mill fabrications (Waseem, 2023). Ecuadorian firms responding to revenue adjustments increased reported costs by about 96 cents per additional dollar of revenue (Carrillo et al., 2017). This income-tax response illustrates adaptation, not a VAT effect or proof of fictitious inputs. Neither result measures global fraud.

Missing traders sell goods, collect VAT and disappear without remitting it; carousel schemes repeat cross-border transactions (Podlipnik, 2012). In Mahagében and Dávid, the Court of Justice of the European Union (CJEU, 2012) rejected deduction denial based solely on supplier misconduct where deduction conditions were satisfied. Fraud-based denial requires objective evidence that the purchaser knew or should have known of the fraud connection. The judgment limits routine transfer of investigative duties to purchasers and provides a comparative boundary, not Albanian law.

Digitalisation affects reporting and collection differently. Peruvian e-invoicing increased reported sales, purchases and liabilities, but credits limited collections (Bellon et al., 2022). Pakistan's real-time risk validation reduced credit claims by 50% in difference-in-differences estimates using information beyond invoices (Shah, 2026); the decline does not establish fraud in every rejected claim. Uruguay's card incentives increased card transactions without a detected compliance improvement (Brockmeyer & Sáenz Somarriba, 2025).

Rwandan evidence links e-invoicing to more effective VAT audits (Kotsogiannis et al., 2025), connecting records to compliance through follow-up. Technology depends on institutional capacity (Okunogbe & Tourek, 2024), with OECD (2026) offering design guidance. Harrison and Krelove (2005) explain the tension between refund integrity and timely payment. Delaying legitimate refunds creates financing costs, so blocked credits alone cannot measure success.

A framework for VAT enforcement and invoice fraud

Four layers separate invoice information from credit claiming. Documentation records

the claimed supply. Cross-party verifiability compares supplier output and purchaser input reports. Credit realisation concerns input-tax offsets, carry-forward and cash refunds. Administrative validation assesses substantive eligibility and pursues liabilities. These are analytical dimensions, not compulsory stages for every invoice.

Omission and fabrication compromise documentation. Errors create mismatches; collusion can produce matching reports for fictitious supplies. Genuine transactions can support invalid claims if deduction conditions are unmet, while supplier non-payment alone does not establish purchaser fraud. Matching tests consistency; delivery, payment, customs and audit evidence can inform substantive verification where legally available. Usable credits affect incentives; enforcement capacity affects collection.

Five implications follow: credit incentives complement credible follow-up; evasion involves both inputs and outputs; networks transmit compliance pressure and fraud exposure; digital reporting requires substantive validation; and revenue protection must preserve legitimate credit recovery. These are analytical conclusions, not treatment-effect estimates.

Discussion

Chilean deterrence concerns reporting incentives; Pakistan's invoice mills exploit claim creation; Uganda's mistakes show that inconsistency need not imply evasion. Matching detects disagreement but does not establish transaction substance or intent. These findings explain why assistance, substantive audit and collection action address different failures.

Reverse charge shifts VAT liability to purchasers, removing suppliers' opportunity to collect and retain VAT while reducing upstream collection (Keen & Smith, 2006; Keen, 2007). Buettner and Tassi (2023) find sharply declining refund requests in affected German industries, supporting pre-reform fraud, while identifying risks from shifting collection towards final sales. This differs from strengthening audit information, as in Rwanda; the evidence provides no universal policy ranking.

Network flags prioritise investigation without proving culpability. Evaluation should track substantiated improper claims, sustained collections, costs, credits restored after review and refund delays. Initially blocked amounts are intermediate outcomes. Accuracy estimates must address non-random audit selection and count both improper claims admitted and legitimate claims restricted.

Albania phased in fiscalisation under Law No. 87/2019 for non-cash transactions with public bodies on 1 January 2021, non-cash business transactions on 1 July and cash consumer transactions on 1 September (General Directorate of Taxation of Albania [GDT], n.d.-a). Automatic transfer of books from SelfCare to e-Filing began with the March 2023 reporting period, retaining taxpayer verification and correction (GDT, n.d.-b). These sources document infrastructure, not fraud reduction or revenue effects.

Albanian invoice and audit records, linked where relevant to payment or customs evidence, would permit assessment of corrected errors, unsupported claims, collections and legitimate-credit treatment. The institutional account establishes neither causal revenue effects nor the absence of existing controls. Albanian law governs entitlement.

Purposive selection risks omissions; heterogeneous settings limit transferability. The framework lacks empirical validation. Future research should compare matching and additional-evidence validation against independent audit outcomes, account for audit selection, and track corrections and appeals. Comparing collections with refund delays and financing costs would test the administrative trade-off. Foreign effect sizes cannot be transferred directly to Albania.

Conclusion

VAT's compliance incentives and invoice-fraud vulnerability reflect the interaction of information and credit value. Purchasers seek documentation for eligible inputs; fraudulent claimants exploit its apparent evidentiary status. The literature supports separating reporting, transaction substance, legal entitlement and collection. Paper trails deter concealment according to the incentives and administrative processes surrounding them.

The framework connects these mechanisms through documentation, cross-party verifiability, credit realisation and administrative validation. Matching, audits and collection arrangements address different problems. Mis-

takes require correction; suspected fabrication requires evidence; supplier non-remittance requires assessment of liability and collectability. Declining claims or expanding digital coverage alone cannot establish enforcement success.

Albania's fiscalisation infrastructure permits these distinctions to guide evaluation. Linking records to corrected errors, substantiated improper claims and sustained collections would clarify performance. Assessment must include legitimate credits: undue restrictions burden compliant firms and can weaken incentives to document purchases. Effective administration combines detection of unsupported claims with timely input-tax recovery and review of contested decisions.

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