

Case Study: CA160 – Case of the Missing Bitcoins

The Defendant was the sole director and shareholder of two limited companies that built and developed websites for customers, providing website content, improved SEO rankings and providing other ad-hoc IT project work.

The companies were investigated by HMRC due to their continual VAT repayment position, whereby HMRC repaid input VAT incurred on business expenditure to the companies.

Due to the significant amount of input tax reclaimed compared to the output tax declared on sales, HMRC questioned how the Defendant was able to run the businesses at such substantial losses.

HMRC calculated the total value of suspected fraudulent VAT returns to be c.£42k.

The Defendant was subsequently charged with two counts of VAT fraud, which he denied.

The Defendant asserted that the income used to sustain his businesses was derived from his Bitcoin trading, albeit the profits were not paid into his business bank accounts nor declared for tax purposes.

The Defendant had told us he was an early adopter/purchaser of Bitcoin and used Bitcoin to pay certain of his business expenses. The income derived from his Bitcoins was paid into one of his PayPal accounts.

We were instructed to:

- Analyse the business and personal bank accounts of the Defendant including his PayPal accounts;
- Review the companies VAT returns taking into account the Bitcoin trading; and
- Calculate the tax liabilities arising (if any) in relation to the undeclared Bitcoin income.

The matter was complicated by the Defendant's use of various PayPal accounts and Bitcoin wallets, which we could not access/obtain records for as the Defendant could not recall the passwords or where the public/private keys to the Bitcoin wallets had been mislaid.

As a consequence of the work undertaken, the Defendant avoided being made subject of confiscation proceedings under the Proceeds of Crime Act 2002.