

Seven people have been arrested and 27 addresses raided over an suspected £38m fraud involving the trade of carbon credits to avoid paying value-added tax (VAT).

Officers from HM Revenue & Customs searched both residential properties and offices in both Gravesend and London targeting an alleged network of organised crime.

Members are believed to have been trading large volumes of high-value carbon credits from overseas sources free of VAT.

Tax investigators believe these may then have been sold on to businesses in the UK charging VAT that is never paid to the authorities.

Officers said further arrests are likely, adding that the proceeds of this alleged crime have been "used to finance lavish lifestyles and the purchase of prestige vehicles".

The Treasury removed VAT from carbon credits on July 31 as a temporary measure until the European Union works out a common policy to tackle fraudsters.

The tax dodge appears to be a variation of "carousel" VAT fraud. Carousel fraud, also known as "missing trader" fraud, typically involves goods such as mobile phones and computer chips imported VAT-free from EU member states. These are then sold in the UK, including a VAT charge, but the trader then going missing without paying the taxman.

Companies now need permits to emit carbon dioxide as part of the global fight against climate change and polluters are granted a certain number of emissions allowances that can be traded.

"The Government took decisive action to prevent this type of fraud recurring by zero rating carbon credits for VAT," said Les Beaumont, deputy director of criminal investigation for HMRC.