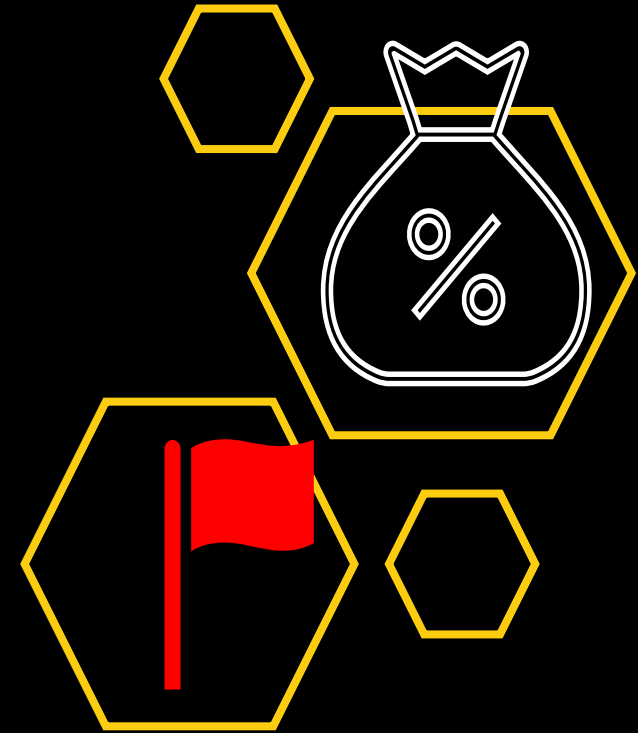






Tax Evasion Red Flags related to ML/FT



Monique Cauchi – Guidance and Outreach Officer – Legal Affairs



Introduction

The importance of Red Flags in AML/CFT

Red Flags related to Tax Evasion

Tax Evasion Cases

Conclusion





Tax Evasion Red Flags related to ML/FT



Al Capone



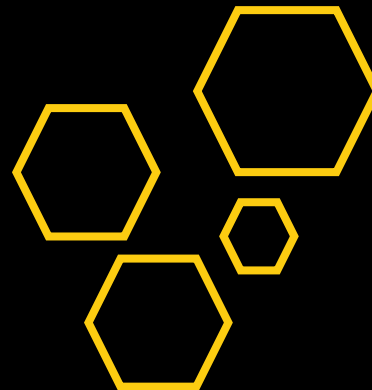


Tax Evasion



Inputting incorrect figures
on a tax return,
exaggerating losses or not
sending a required form

Complex offshore accounts with
the beneficial owners and assets
hidden behind multiple layers of
corporate entities and offshore
legal trusts





Wolfsberg Guidance on Customer Tax Evasion

‘ Although tax evasion and money laundering are operationally distinct processes, they **share similar sophisticated obfuscation techniques** and the success of each crime depends on the ability to **hide the financial trail of the income**. Money launderers seek to transform illegally gained proceeds of crime into legal forms, while tax evaders seek to conceal income and assets, either legally or illegally earned or derived, from detection by the tax authorities ,

The image shows the cover of the 'Wolfsberg Guidance on Customer Tax Evasion' document. At the top right, there is a list of member banks: Banco Santander, Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, J.P. Morgan Chase, MUFG Bank, Société Générale, Standard Chartered Bank, and UBS. In the center, the logo for 'the Wolfsberg Group' is displayed. Below the logo, the title 'Wolfsberg Guidance on Customer Tax Evasion' is written. Underneath the title, the section '1. Introduction' is highlighted. The main text of the introduction states: 'The Wolfsberg Group¹ is pleased to publish guidance on how Financial Institutions (FIs) can mitigate and manage the risks associated with money laundering in the form of customer tax evasion ('Guidance'). For the purposes of this guidance, tax evasion relates to tax related criminal offences prescribed by laws of a jurisdiction and considered to be a predicate offence to money laundering. Tax evasion generally includes the deliberate concealment or misrepresentation of beneficial ownership of assets, income and gains, or otherwise fraudulent conduct, designed to divert money from the public revenue.'



The Importance of **Red Flags** in AML/CFT:

1

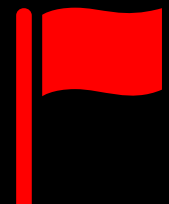
Essential to monitor the behaviour of individuals or entities

Helps Subject Persons to apply a Risk-Based Approach (RBA) to Customer Due Diligence (CDD)

2

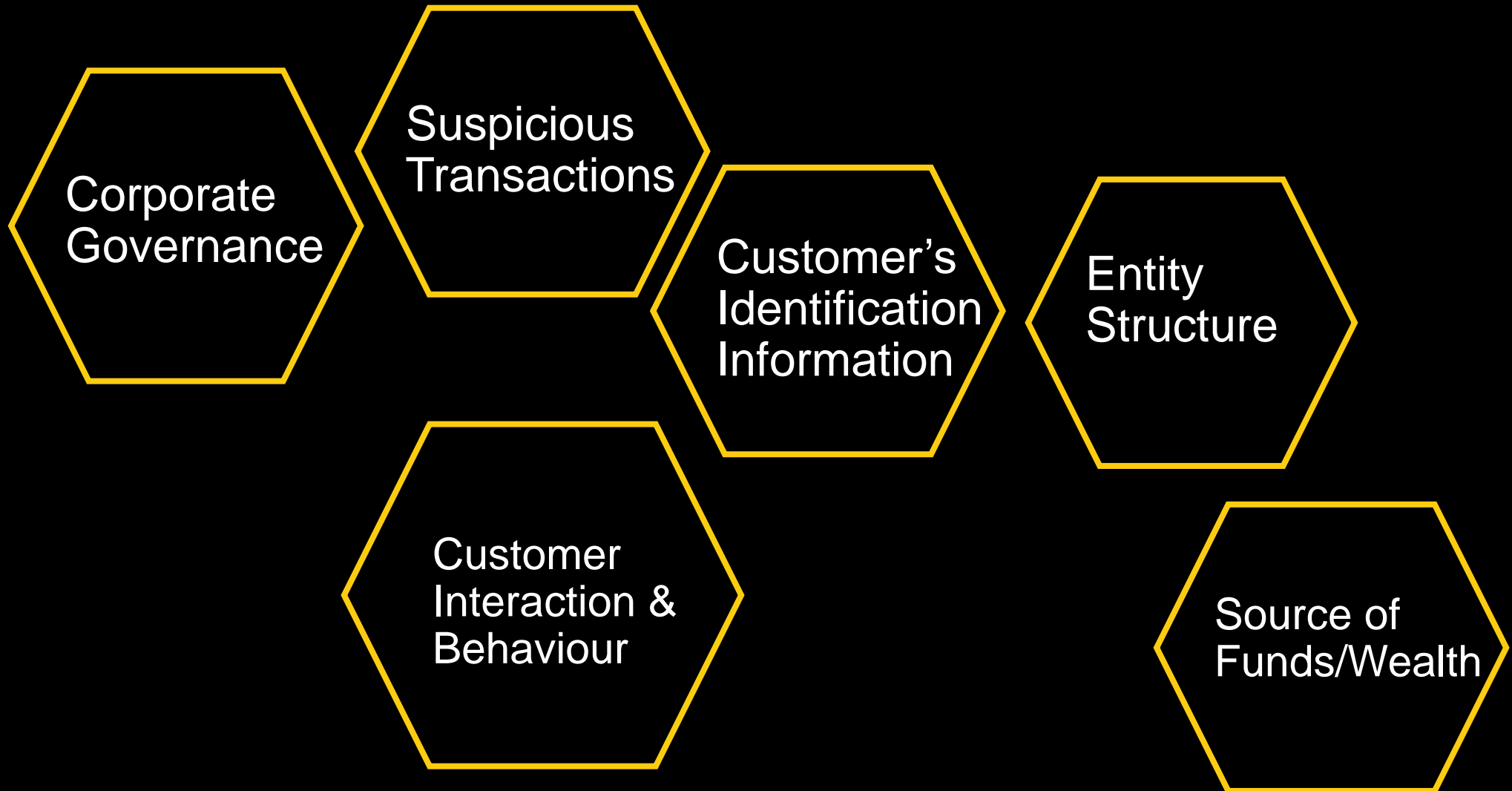
Provides a gauge to assist in the reporting of unusual or suspicious activity

3



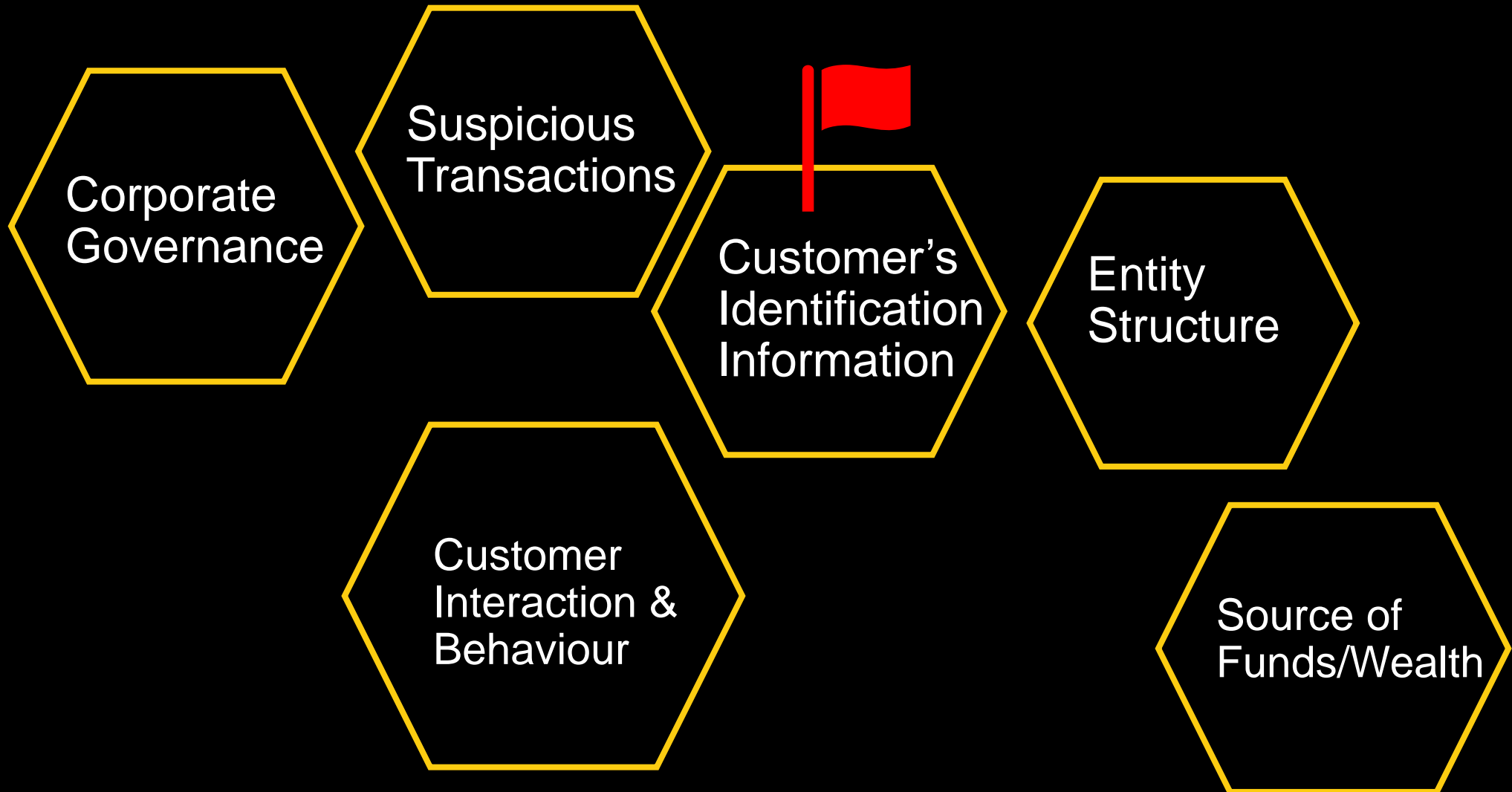


Red Flags related to tax evasion:





Red Flags related to tax evasion:





Red Flags related to tax evasion:

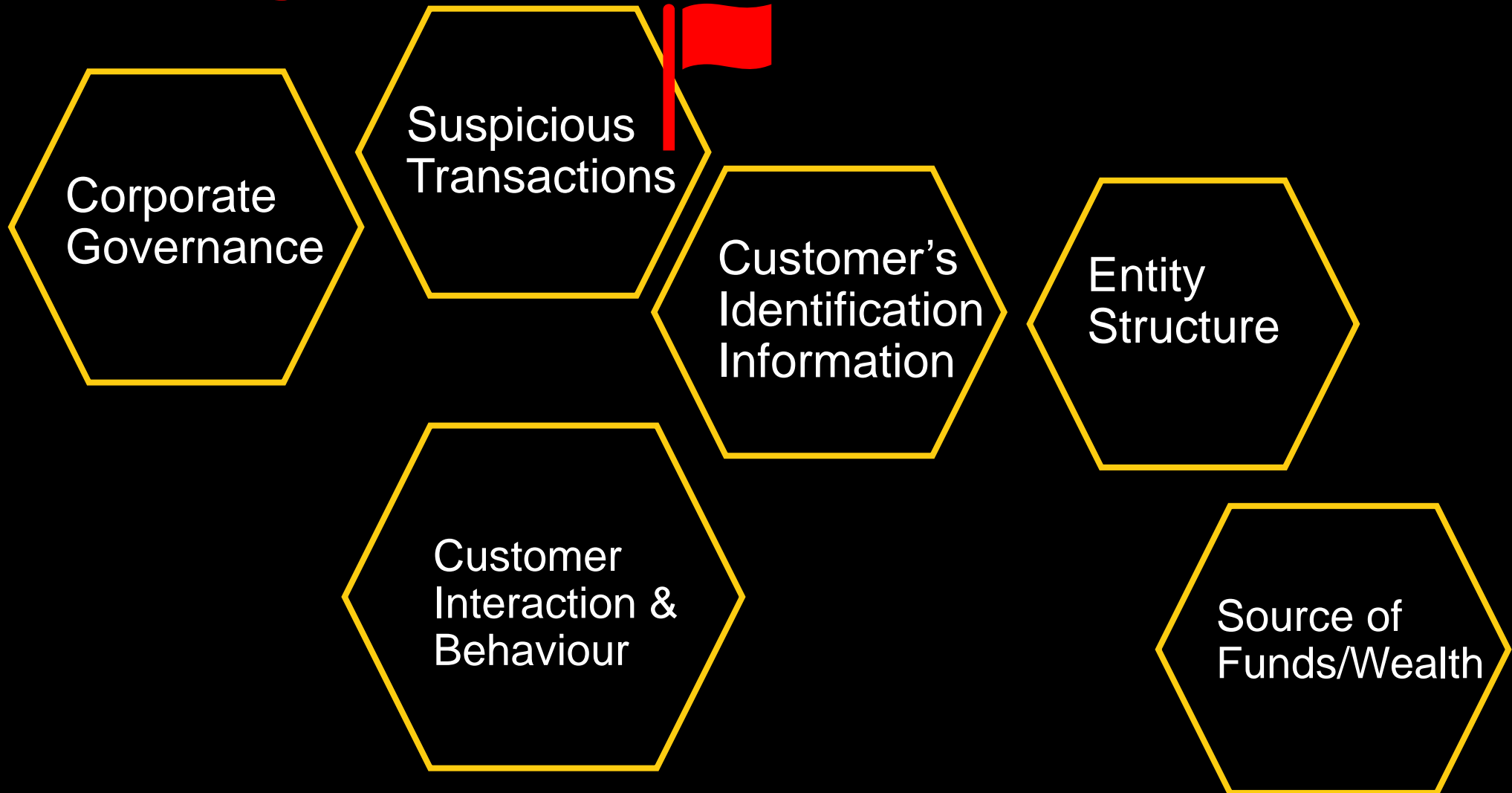
Customer Identification Information

- ⬡ Individual fails to disclose **dual citizenship or tax domicile**
- ⬡ Indication of a **concealed chain** of linked customers
- ⬡ Individual's business **not located where the person lives** having no legitimate commercial purpose
- ⬡ A national or resident of a **high tax risk jurisdiction**





Red Flags related to tax evasion:



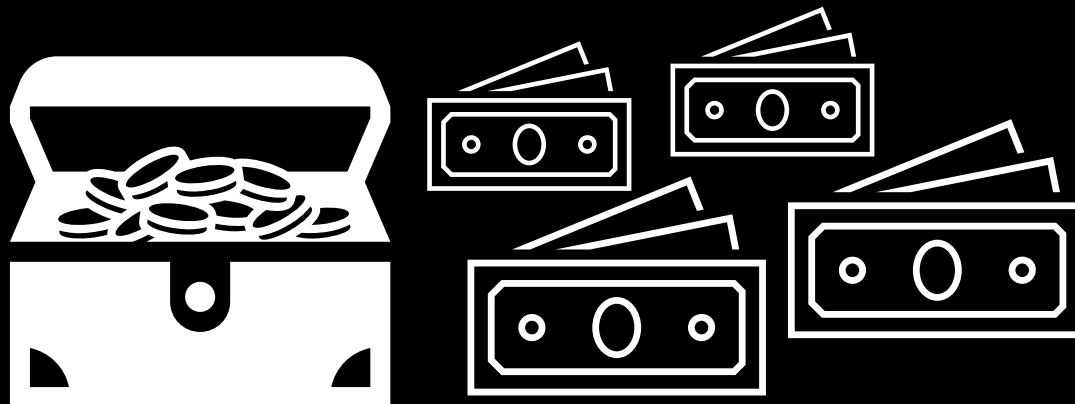


Red Flags related to tax evasion: Suspicious Transactions

- Hexagon icon Transactions broken down to avoid questioning or suspicion

What is structuring?

Structuring is the intentional splitting of cash into small amounts in order to avoid a large transaction which would trigger questioning.

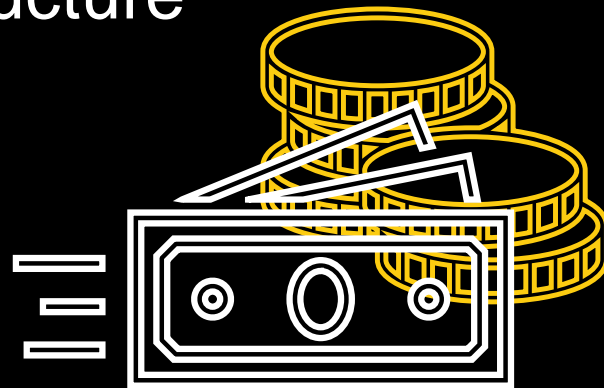




Red Flags related to tax evasion:

Suspicious Transactions

- Regular and significant **wire transfers** from/to a jurisdiction where the tax rate is high without a legitimate business-related reason
- Disproportionate withdrawals or deposits** in which the origins are not justified or inconsistent with the purpose of the account
- Transaction does not fit** with the known customer profile or customer structure

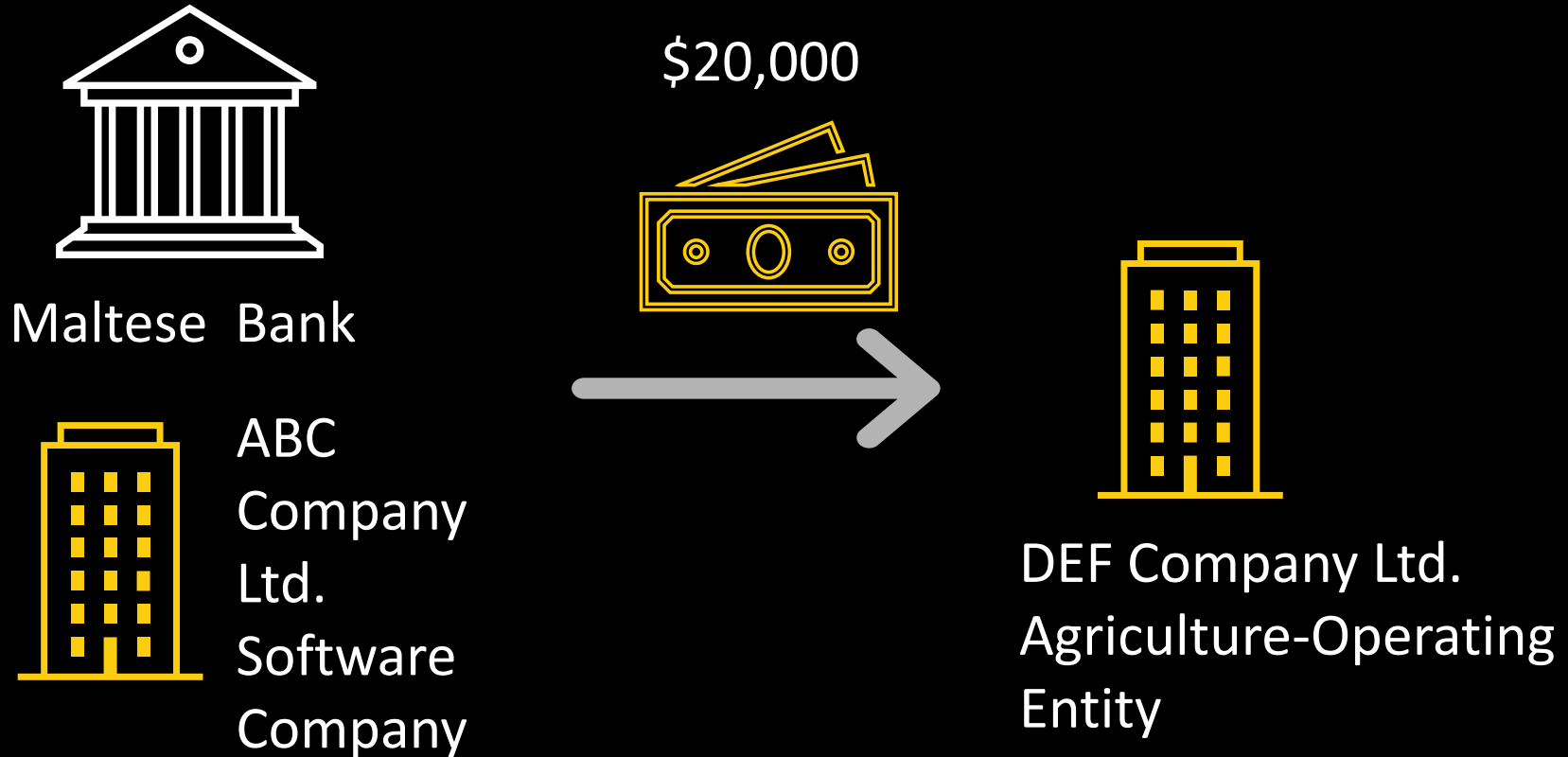




Red Flags related to tax evasion:

Suspicious Transactions

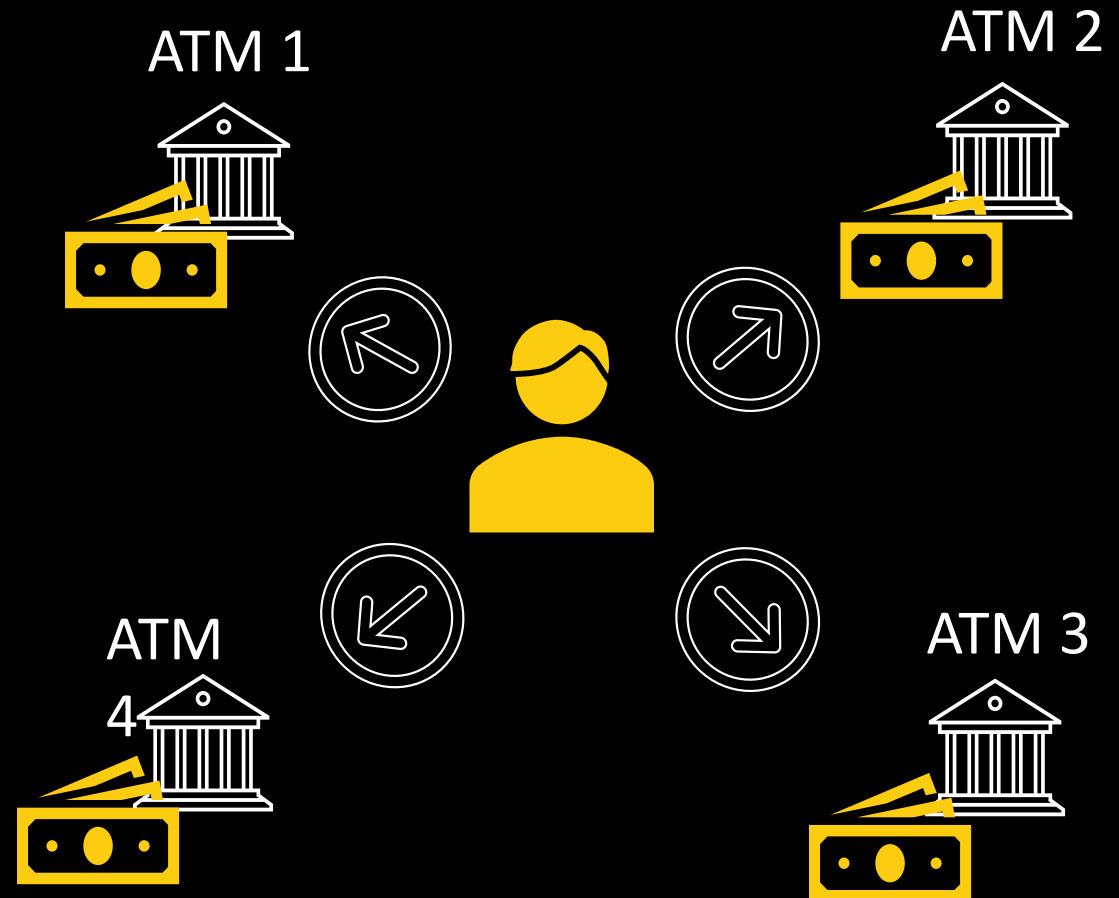
Case Example





Red Flags related to tax evasion:

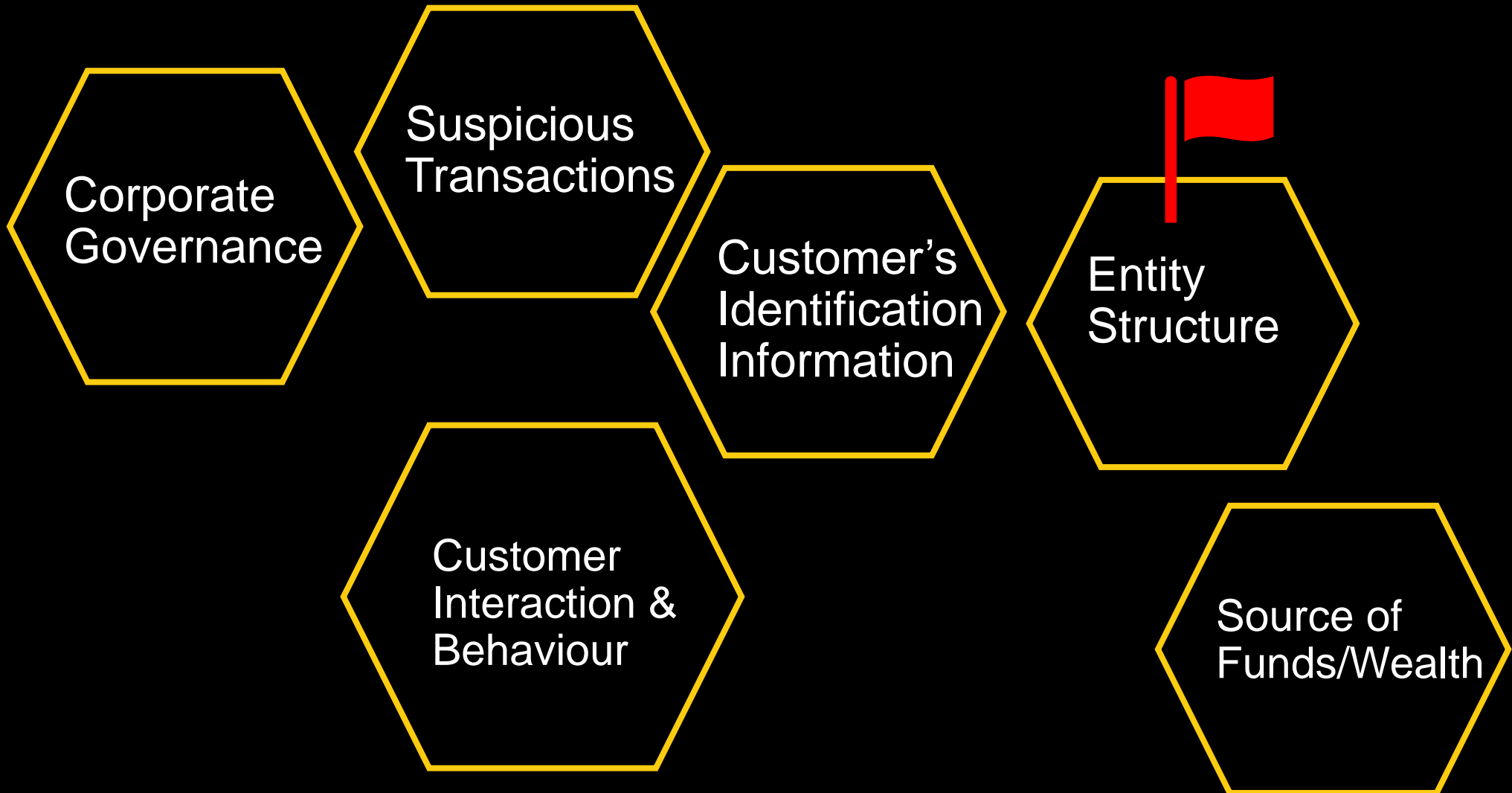
Case Example



	Deposits	VAT returns – total sales
2017	€75,000	€50,000
2018	€80,000	€30,000
2019	€93,000	€30,000



Red Flags related to tax evasion:





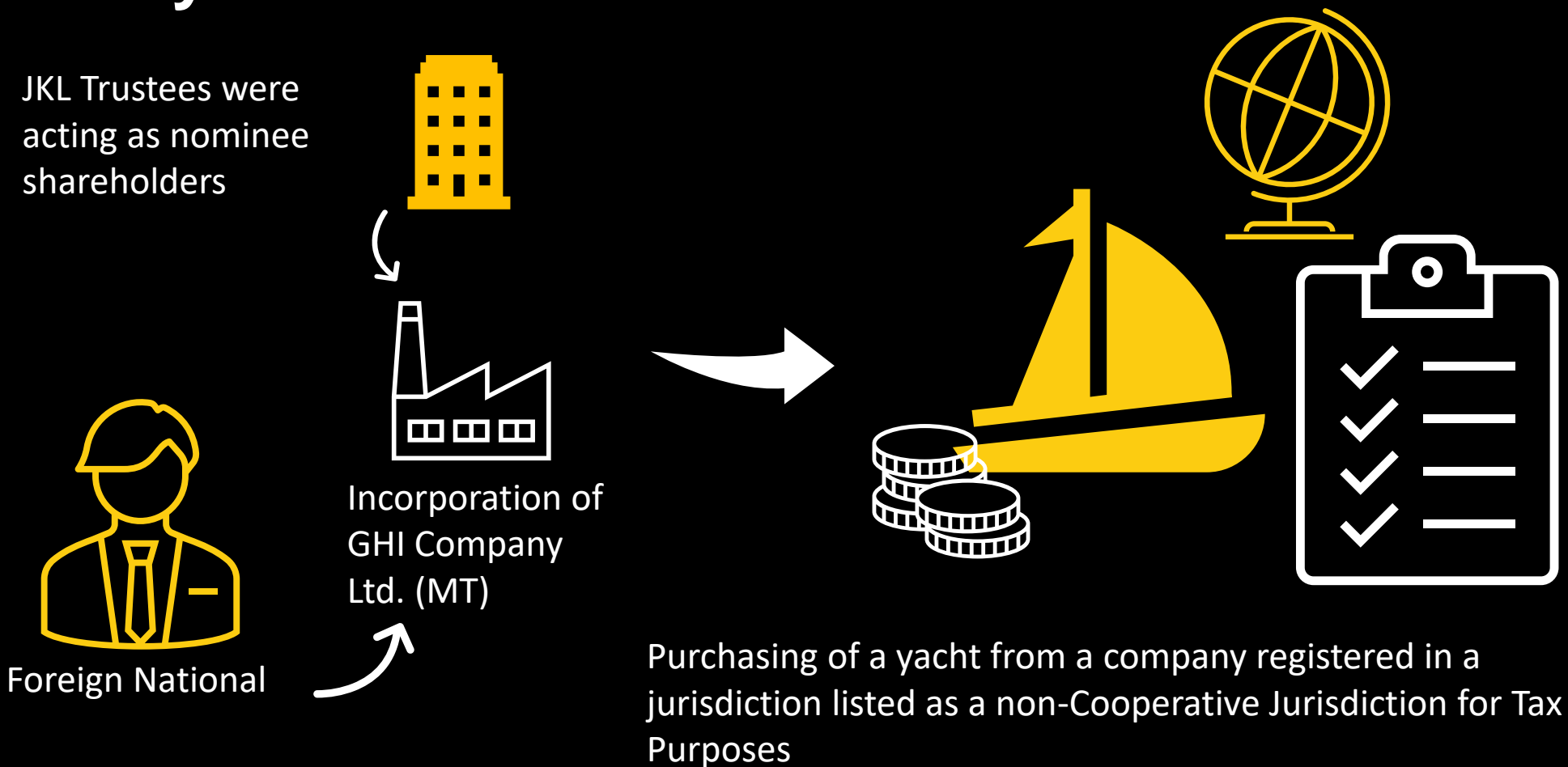
Red Flags related to tax evasion: Entity Structure



- ⬡ Unusual structure or excessively intricate structure
- ⬡ The structure is intended to mask information or make it problematic to obtain information
- ⬡ Use of nominee directors/shareholders within the entity structure with no clear and legitimate commercial purpose or some reasonable justification
- ⬡ Lack of professional tax advice to sustain any tax implications of complex structures
- ⬡ Sudden increase in revenue within an entity or when a newly-formed company happens to have an excessively high revenue
- ⬡ Cash-Intensive Businesses

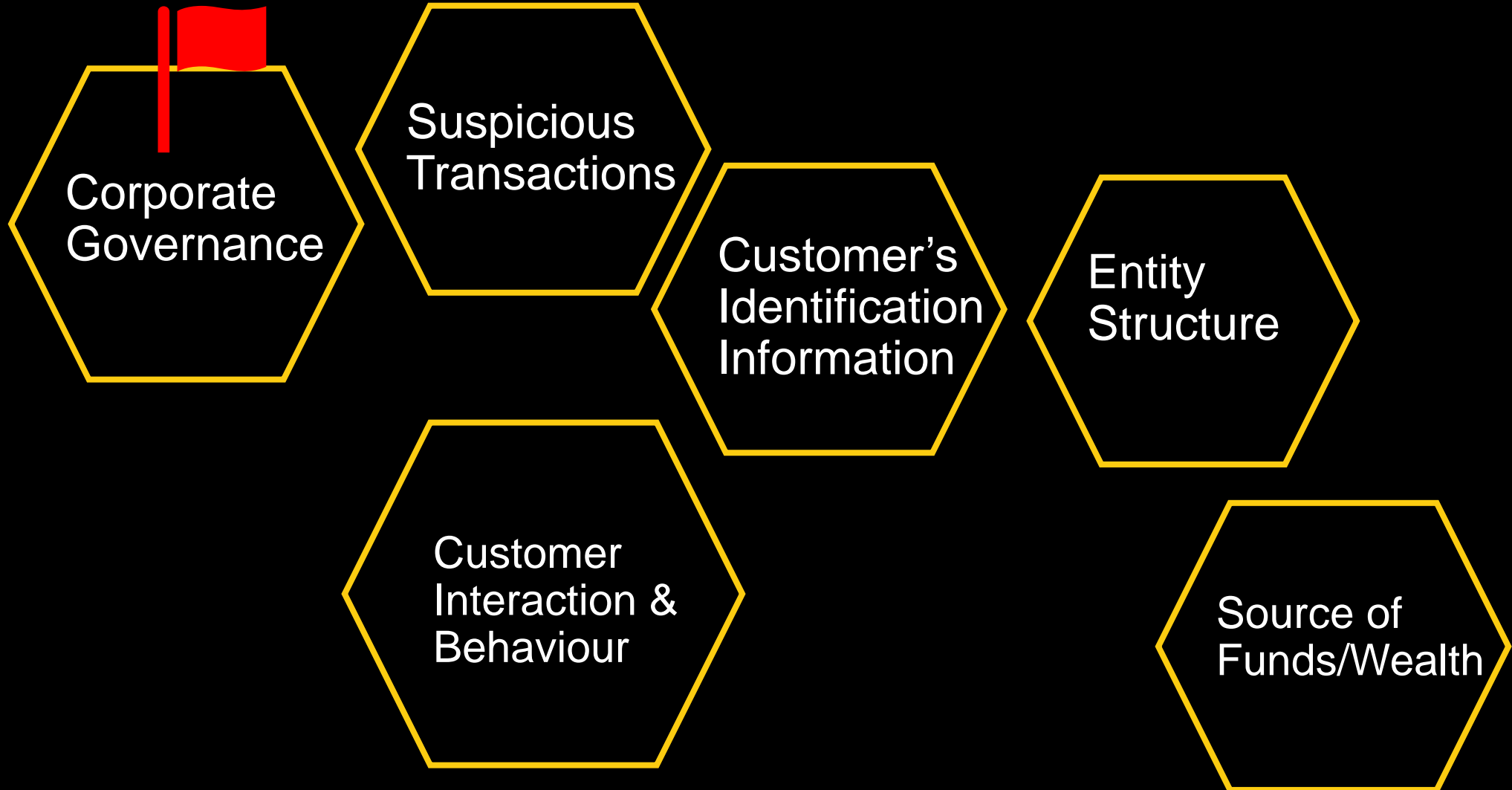


Red Flags related to tax evasion: Entity Structure



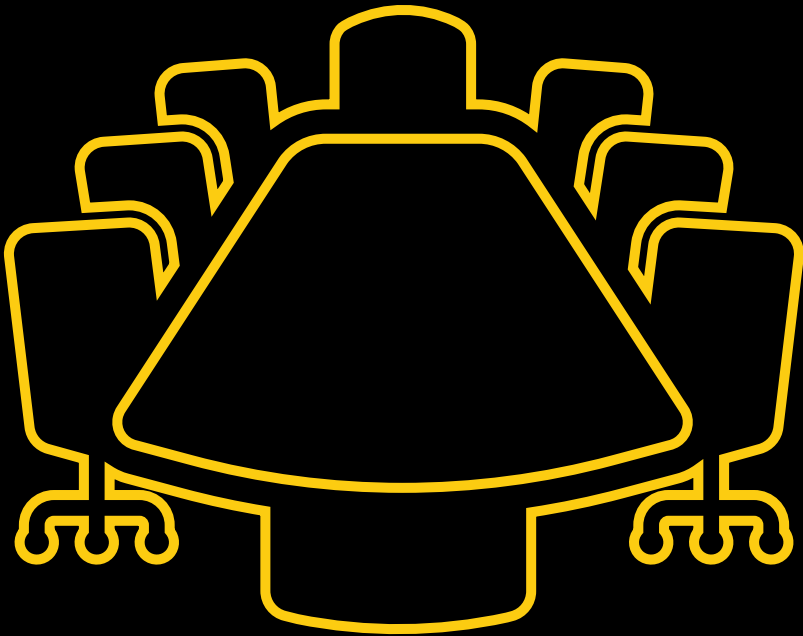


Red Flags related to tax evasion:





Red Flags related to tax evasion:



Corporate Governance

- ⬡ The entity/structure's policies and procedures are not followed.
- ⬡ Rubber stamping of documents
- ⬡ Commingling of personal and business accounts
- ⬡ Personal expenses paid with entity funds



Tax Evasion Red Flags related to ML/FT

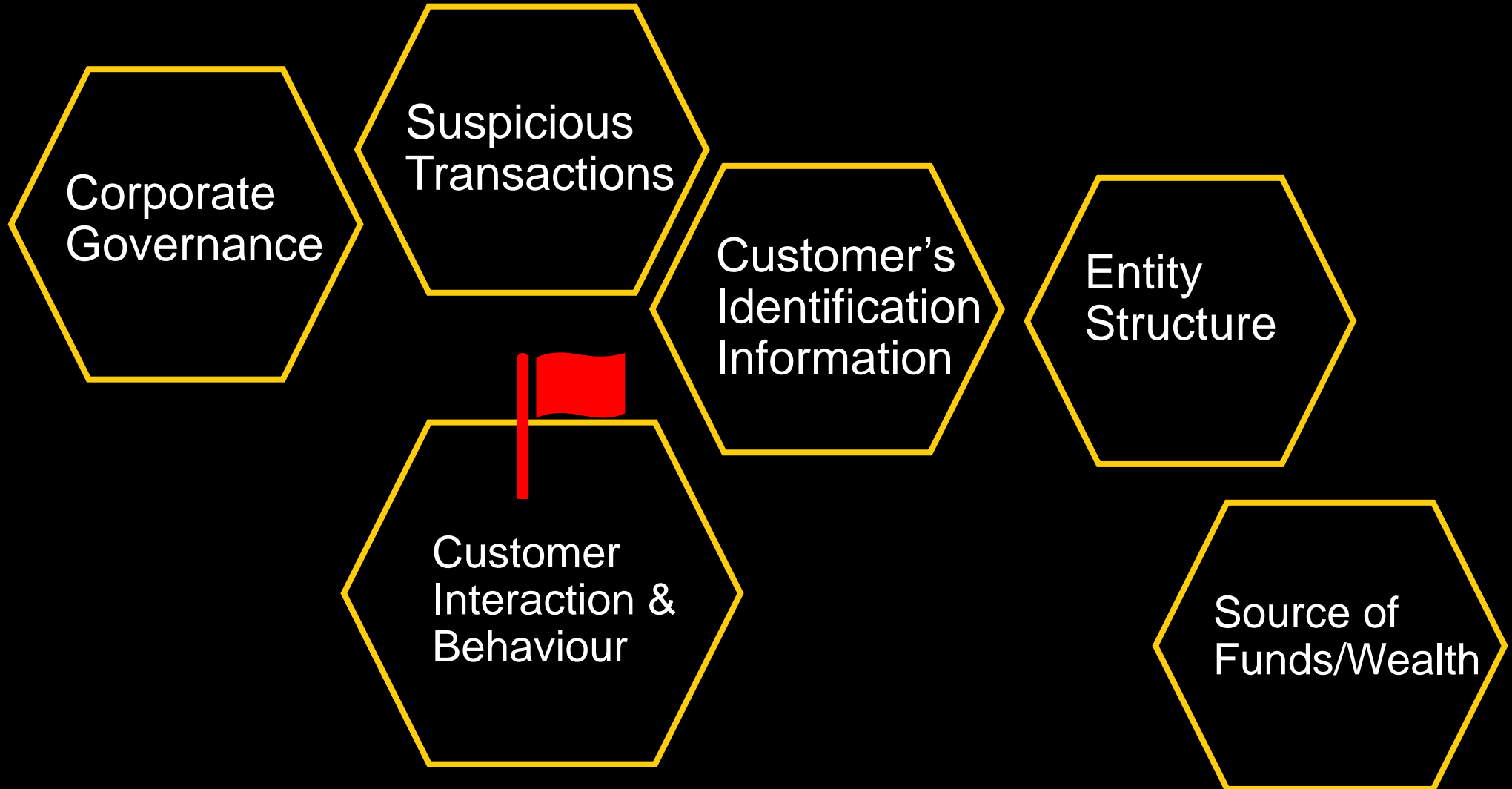


- The indictment charges Threadgill with the following affirmative acts of evasion:
- a. Using his law firm bank account and payroll account to issue checks to third parties for personal expenditures, thus **disguising the existence and source of funds available to pay his assessed personal income taxes and thwarting attempts to collect such taxes;**
 - b. Creating and maintaining ledgers that **concealed the true nature of personal expenditures from his law firm account;**
 - c. Establishing bank accounts in the names of nominee trusts and using such accounts to **disguise the existence of assets, thus thwarting attempts to collect his personal income taxes;** and
 - d. Titling his personal residences in the names of nominee trusts in an attempt to **disguise the ownership of such residences and place them beyond the reach of creditors, including the Internal Revenue Service.** ,

The screenshot shows a Forbes article from July 28, 2011, at 04:28pm EDT. The title is "Lawyer Charged with Tax Evasion for Paying Personal Expenses from Firm" by Stephen J. Dunn, a contributor in the Markets section. A warning icon indicates the article is more than 9 years old. The article text begins with: "Own a small business? Do you run personal expenses through the business? A recent Tennessee case shows where this practice can lead. A Federal grand jury in Knoxville, Tennessee has indicted lawyer John Threadgill for tax evasion. The indictment alleges that from 1986 to 2004, Threadgill evaded \$1.4 million in Federal income tax by conduct which included paying from his law firm \$245,000 for family educational expenses."



Red Flags related to tax evasion:





Red Flags related to tax evasion:

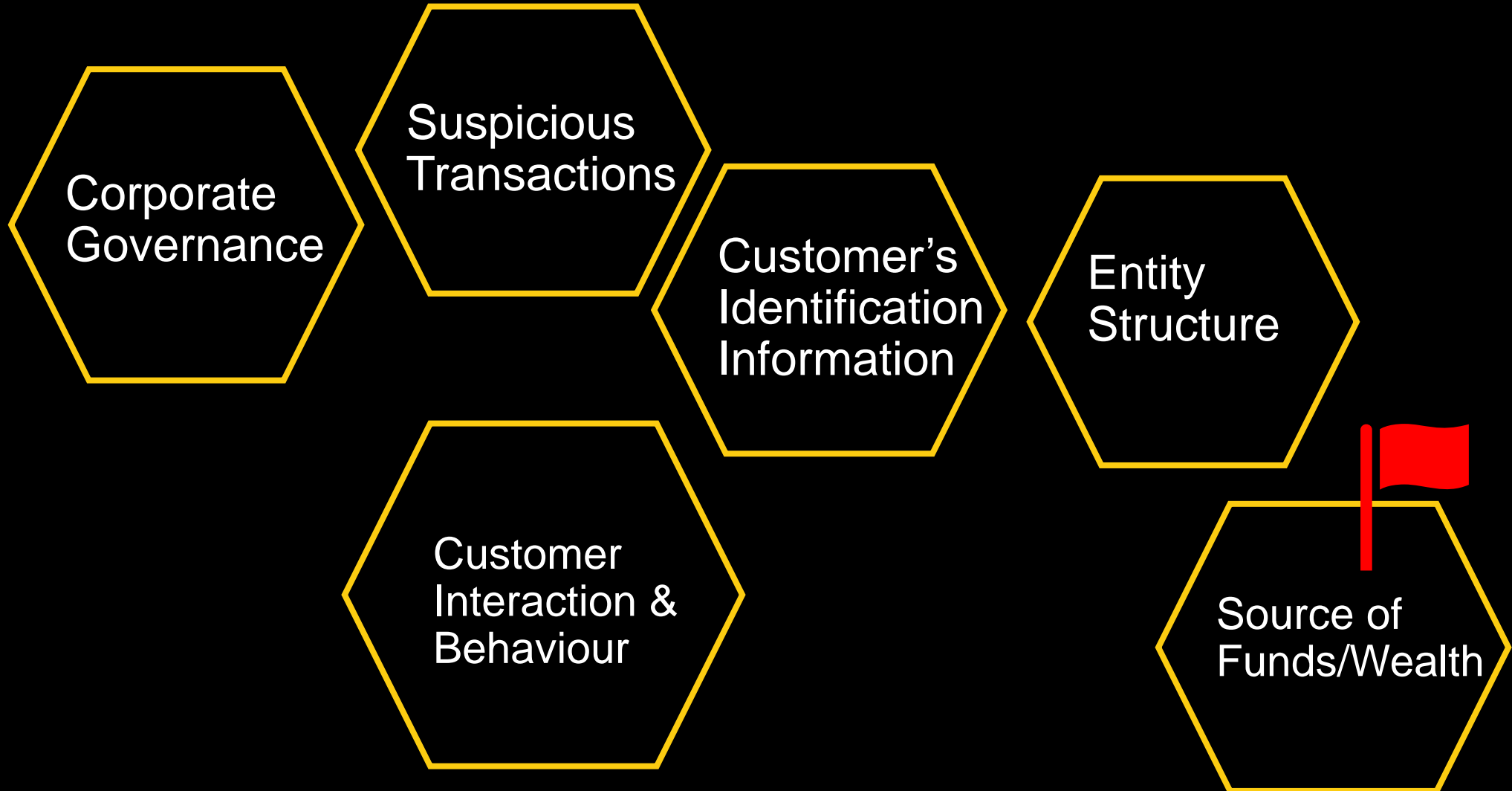
Customer Interaction and Behaviour:

- ⬡ Showing **greater than normal interest in tax-related issues** or asks about tax disclosure requirements other than for legitimate tax planning purposes
- ⬡ Information derived from the customer which might **indicate undeclared funds or tax evasion**
- ⬡ **Refusing to provide requested information** to comply with international tax obligations, including tax status
- ⬡ **Suspicious passive role** with little interaction





Red Flags related to tax evasion:





Red Flags related to tax evasion:

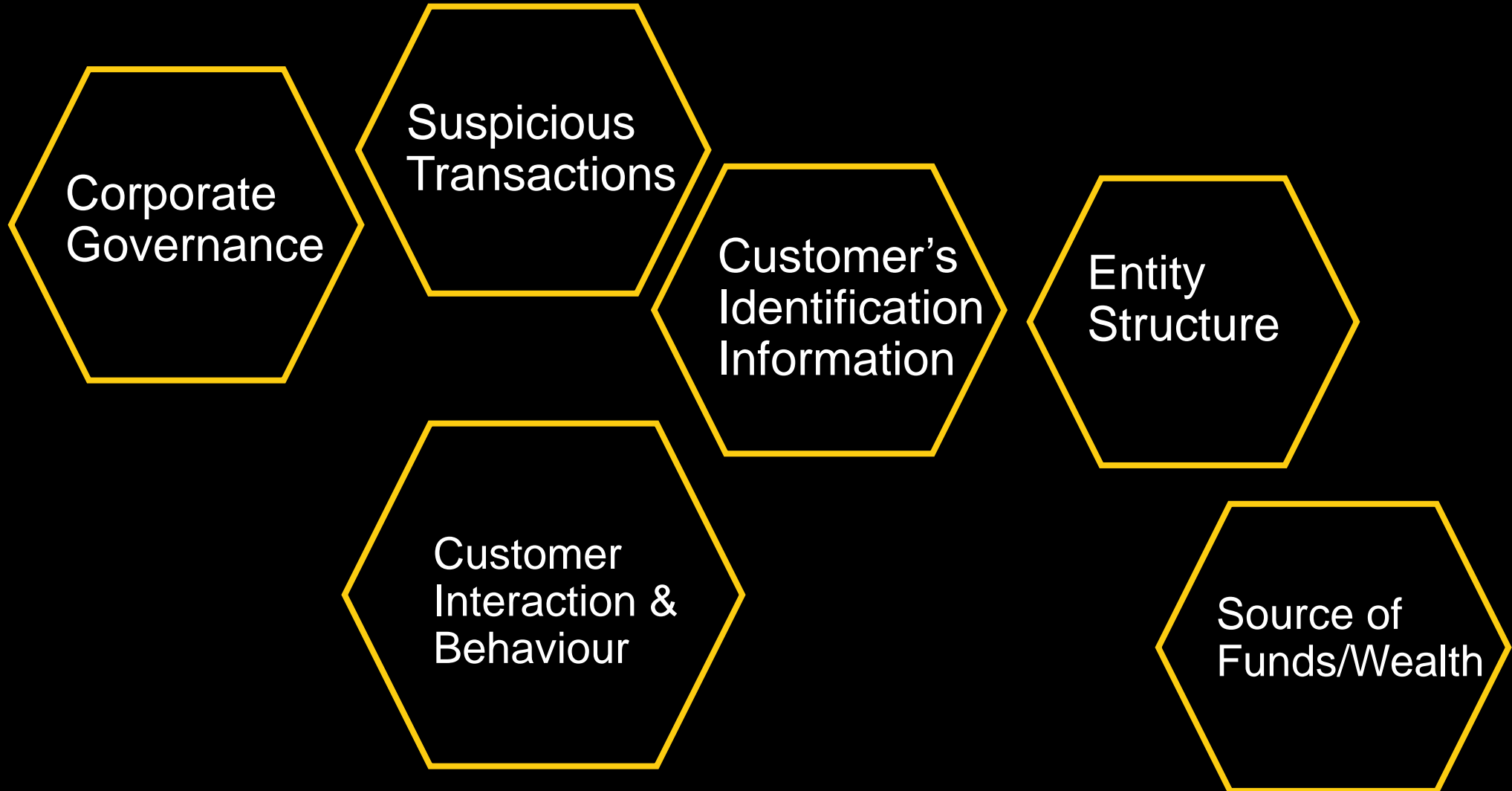
Source of Funds and Source of Wealth

- ⬡ Inability or unwillingness to provide the source of funds and source of wealth
- ⬡ Source of funds seeming odd or lacking sufficient clarifications
- ⬡ Individual unable to confirm that the source of funds/wealth have been properly declared to the tax authorities





Red Flags related to tax evasion:





Thank you for
listening!