Red Flag Indicators on Tax related Money Laundering

Tax offences have become a serious concern for jurisdictions across the world which have a common objective of maintaining the integrity of financial and tax systems. Weaknesses in systems to prevent tax offences and associated money laundering could allow tax evaders to persist and deprive jurisdictions of tax revenue.

The purpose of these red flag indicators is to guide the reporting entities, financial sector regulators and law enforcement officers in identifying indicators for tax offences and related money laundering. Accordingly, there are numerous indicators that may assist reporting entities (REs) and law enforcement officers including IRD to identify potential tax evasion transactions. REs are advised to identify customers' tax-related money laundering risks and incorporate the evaluation of such risks into related procedures of money laundering controls. A comprehensive system of close monitoring is essential in detecting and preventing such activities. When identifying tax-related money laundering risks, REs may refer to the red flags for tax-related money laundering risks specified herein. These red flags have been developed based on the recent patterns observed through the information received by the FIU via Suspicious Transaction Reports (STRs) reported by the Reporting Institutions and other sources of information. However, it is to be noted that the below mentioned set of indicators is neither intended to, nor should be construed as, an exhaustive list of possible indicators of suspicions of tax related money laundering in domestic and global context.

A. Customer's Account/ Financial Relationship:

i. The purpose or intention for establishing a business relationship is not convincing, or there are doubts on the source of funds, without any apparent link with the jurisdiction or substantial reason in terms of assets, liabilities or activities to justify doing so.

ii. Using nominee shareholders in the structure of a corporate customer (such as an actual asset contributor or a beneficial owner who is not registered on the register of shareholders) without a legitimate commercial purpose or justification.
iii. The location (country) of the primary business activity of an individual customer is different from his/her residence place (country) without a legitimate commercial purpose and/or the location is considered to be a non-cooperative jurisdiction for tax purposes.
iv. Substantial amount that has been accounted for business purposes at the opening of the business (individual or entity including a corporate body) does not represent the nature/scale of the business according to the general understanding of similar businesses in the country and/or source of investment is suspicious according to the information provided when the opening of the accounts.
v. Funds originated from an overseas source for a local business without having satisfactory reasons as to the source and why, as the financial institution comprehend.

B. Types of Transactions:

i. Transactions (including over complex transactional structures) are not in line with the known customer profile.
ii. Transactions involving the transferring of funds for which there is no economic, commercial or logical rationale.
iii. Circular transactions or round-tripping transactions where funds are reinvested into the original jurisdiction after being transferred to a foreign entity (often, but not necessarily, in a tax haven).
iv. Funds are withdrawn in ways that the expenditure cannot be traced. This occurs through the use of payment methods that cannot be traced easily, such as cash or virtual financial assets, with the intention to divert and hide the trail of transactions.

v. Transactions where assets are transferred, including where assets are settled on trust or transferred to similar entities, in circumstances where there is no clear legal and rational choice to account for such transfers, and/or the assets are transferred to non-cooperative jurisdictions and/or jurisdictions with strategic AML/CFT deficiencies. (e.g., Jurisdictions which Financial Action Task Force identifies and publishes with strategic AML/CFT deficiencies that present a risk to the international financial system).

vi. Identification of one or more transactions as have been undertaken to try and evade taxes, or any other communication with the customer gives rise to suspicion that the customer has undeclared funds or evades taxes.

vii. Use of significant amount of cash in a non-cash intensive business without a commercial or reasonable justification.

viii. Customer makes payments to supplier's offshore bank account without valid reason, raising suspicion that the transfer might be for tax evasion purposes.

ix. Conduct of commercial transactions through personal accounts without rationale.

C. Customer's Conduct/Behaviour:

i. Failure to disclose dual citizenship or tax domicile.

ii. The customer refuses to provide information required to comply with international tax obligations, including documentation regarding declared income in their country of origin.

iii. Customer reviews reveal adverse news regarding violations of criminal laws, tax laws or circumvention of tax liabilities, such as tax evasion or tax-related crimes.

iv. Customer shows greater than normal interest in tax reporting topics or enquiries about tax disclosure requirements other than for legitimate tax planning purposes (legitimate tax planning may include awareness on qualifying payments and educational purposes, etc.)

v. Customer requests to suspend the mailing service of the relevant bank documents, or the interval between picking up mails in person is too long without rationale.
vi. The customer requests to close the account due to the stringency of tax laws or the bank's request to provide relevant tax information.
vii. An entity that does not report any revenue but has executed transactions which have been reported by third parties. For example, Company A is not declaring any income. However, through evidence derived from Company B it would indicate that Company A is operating, transacting and making profits which shows that income is not being declared or is otherwise being underdeclared.
viii. The customer has stated that the use of the bank's products and services is for the purpose of concealing ownership of income and assets from the tax authorities.
ix. The customer demands exceptionally high and atypical levels of confidentiality.
x. The customer opens an account and funds are transferred to/from non-cooperative jurisdictions or jurisdictions with recent material changes in their tax regime.
xi. The customer is non-compliant with tax obligations for a number of years in native country and/or reason to suspect or believe that the customer is not complying with tax reporting obligations in other countries.
xii. The customer requests or suggests not to disclose any pertinent information to the tax authorities where the disclosure of that information is required in terms of law.
xiii. Adverse media, such as allegations of tax fraud or convictions on tax crimes, related to tax on the customer or any connected parties.
xiv. False statements or documents relating to tax.
xv. Customer expressing interest to conceal beneficial ownership of income and assets from tax authorities.
xvi. Customer closes and starts new businesses repeatedly.
xvii. Customer accounts are funded by transfers from high tax jurisdictions.

xviii. Customer conducts frequent and substantial wire transfers from/to, high/low tax jurisdiction respectively, without any legitimate business-related reason or legitimate commercial purpose.

xix. Customer under or overvalues goods and/or services where the declared value on the invoices for these goods and/or services does not reflect the market value.

xx. Customer has an unusually large number of private investment companies without valid reasons.

xxi. Customer is involved in business activities and transactions but does not reveal any revenue.

D. Entity Structure or Governance

i. Customer structure is uncommon or overly complex without a clear and legitimate commercial purpose or some reasonable justification to conceal information or make it difficult to obtain certain information, such as beneficial owner information (e.g. trust or foundation established in a jurisdiction with no requirement to disclose beneficiaries).

ii. Use of nominee directors/shareholders without a clear and legitimate commercial purpose or some reasonable justification.

iii. The establishment of a company in a jurisdiction where the company does not actually have any presence or conducts any activities.

iv. Establishment of operating company in another jurisdiction bearing the same name without a commercial justification.

v. Use of shareholders' loans/assets to finance corporate entities.

vi. Income/balances reported for information purposes do not match declared income for tax purposes.

vii. Incorporation of companies which are then abandoned shortly after their establishment.

viii. Incorporation of an entity with short term goal or objective cited at the time of opening an account or commencing business relations.

ix. A sudden, unexplained increase in revenue within an entity or a non-commensurate high revenue within a newly formed company.

x. The entity maintains materially incomplete records which would undermine the integrity and reliability of the records required for the proper determination of tax due.