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EURASIAN GROUP

on combating money laundering and financing of terrorism



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# **TAX CRIMES AND MONEY LAUNDERING TYPOLOGY RESEARCH**

**Ashgabat, November 2013**

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## **Introduction**

This research related to tax crimes and money laundering has been conducted pursuant to the decision of the 17<sup>th</sup> Plenary of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (hereinafter the EAG).

The research has been conducted in response to adoption by the Financial Action Task Force (FATF) of the revised FATF Recommendations – International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation in February 2012. One of the main modifications in the revised Recommendations is the inclusion of tax crimes as predicate offences to money laundering.

The goal of the research was to identify the best practices used in the EAG member and observer countries for combating tax crimes and fighting against legalization (laundering) of tax crime proceeds.

Taking part in this typology exercise were the financial intelligence units of the Republic of Belarus, Republic of Lithuania, Russian Federation, Republic of Tajikistan, Republic of Turkey, Republic of Uzbekistan and Ukraine.

The research is focused on identifying the typologies and patterns of tax crimes with further laundering of the illegally obtained proceeds through transactions with funds and other assets, which can be used by the FIUs for proactive detection of suspicious activities.

The extent of threat posed by laundering the tax crime proceeds to the society is not less than that presented by laundering the proceeds of conventional crimes.

The collected taxes are the main source of the revenues for the national governments. They are used for funding the welfare systems as well as for implementing the major government-funded programs and projects of the national importance.

It is important for the countries to fully understand threats posed by this type of criminal activity and to effectively detect financial transactions related to tax crimes and laundering the proceeds thereof. The countries should be capable of not just identifying such financial transactions but should also be able to reveal, to a maximum possible extent, their purposes and identify the elements of possible tax crimes.

Given that the fiscal offences are a widespread problem and are attractive to criminals, we believe that results of this research will contribute to identifying approaches and ways for implementing the automated tools and facilities to be used by the FIUs for curbing this type of crime. We also hope that the outcome of this typology exercise will prompt countries to gradually harmonize their tax laws. Besides that, the results of this typology study will enable countries to use the best practices adopted by the surveyed states for combating tax crimes and fighting against laundering the proceeds of such crimes.

## **Section 1. General Situation Related to Combating Tax Crimes and Fighting against Laundering the Tax Crime Proceeds**

### **1.1. Actions Constituting Tax Crimes and Liability for their Commission**

Presented in Annex 1 are the responses of the surveyed countries that describe in detail the actions of individuals classified as criminal offences under the respective national criminal legislation and the criminal liability imposed for commission of such actions.

The analysis of the received responses revealed the following:

All surveyed countries impose criminal liability on individuals for committing tax crimes related to non-payment (evasion) of taxes and (or) levies by entities, unincorporated entrepreneurs and natural persons.

However, the specific wording of the articles pertaining to tax crimes and the description of the criminalized actions related to evasion of taxes and (or) levies in the criminal laws of the surveyed countries differ significantly.

The relevant articles of the Criminal Code of the Russian Federation impose liability for concealment of funds or other assets of an entity or unincorporated entrepreneur on which taxes and duties are levied (Article 199.2) and also establish liability for defaulting on obligations of a tax agent (Article 199.1).

Article 212.1 of the Ukrainian Criminal Code envisages liability for evasion from payment of unified contribution for general mandatory state social insurance or also from payment of insurance premiums for general mandatory state pension insurance.

The relevant Articles the Lithuanian Criminal Law penalize actions that constitute fraudulent accounting (Article 222) and negligent accounting (Article 223).

Article 359 of the Turkish Tax Procedures Law imposes liability for destroying accounting books, records and documents and for issuing or use of false invoices (paragraph b) and also establishes liability for printing false invoices (printing invoices without approval of the Ministry of Finance) or for deliberate use of such false invoices (paragraph c).

The actions of individuals constituting tax crimes are defined in the most concise manner in the Criminal Codes of Uzbekistan and Belarus.

In most of the surveyed countries, the following penalties are established for the commission of tax crimes: fines (of various amounts), community services (correctional/ compulsory labor), detention, imprisonment and deprivation of the right to hold certain job positions or engage in certain activities. Besides that, the legislation of Ukraine and Belarus provides for possible confiscation of assets for committing tax crimes in particular situations.

The maximum terms of imprisonment for tax crimes are as follows:

- in Belarus – 7 years;
- in Lithuania – 6 years (for VAT fraud – up to 8 years);
- in Tajikistan – 5 years;
- in Turkey – 5 years;
- in Russia – 6 years;
- in Uzbekistan – 5 years;
- in Ukraine – 3 years.

It is noteworthy that the extent of liability imposed for tax crimes in the majority of the surveyed countries depends on amount of evaded taxes and (or) levies. Used in Ukraine for this purpose are three levels of evasion of taxes (levies), namely: on a significant, large and particularly large scale. In other surveyed countries, just two levels of tax (levies) evasion are used: large and particularly large amount.

It would be useful to compare the exact amounts under these levels in different countries converted into a single currency (USD), however, such data have not been collected during the research.

More severe punishment is imposed for repeated commission of such crimes in Tajikistan, Uzbekistan, Russia and Ukraine. Besides that, tax crimes committed by a group of persons upon prior conspiracy are punishable in stricter manner in Russia and Ukraine.

It should be noted that according the Russian and Ukrainian legislation persons who committed a tax crime for the first time are discharged from criminal liability provided that they pay in full evaded taxes and also all fines and penalties. In Uzbekistan, accused individuals are not subject to imprisonment if they paid the evaded taxes and also fines and penalties in full.

## **1.2. Current Implementation of the FATF Recommendations Pertaining to Inclusion of Tax Crimes as Predicate Offences to Money Laundering**

Presented in Annex 2 are the responses of the surveyed countries related to implementation of the FATF Recommendations pertaining to inclusion of tax crimes as predicate offences to money laundering.

Analysis of the received responses showed that Lithuania, Tajikistan, Turkey, Russia and Uzbekistan designated tax crimes as the predicate offences to money laundering.

In particular, following the adoption by Russia of Federal Law No.134-FZ dated 28.06.2013 on Amendments to Certain Legislative Acts of the Russian Federation Pertaining to Combating Illegal Financial Transactions, the existing exemptions related to evasion of taxes and customs duties were deleted from the definition of money laundering. At present, tax crimes are qualified as the predicate offences to money laundering as a result of introduction of the aforementioned amendments.

In Belarus and Ukraine, tax crimes are partially classified as predicate offences.

For example, the so-called “self-laundering” is not subject to criminal liability in Belarus. (Self-laundering means a situation where a perpetrator, through whom tangible assets are gained, has obtained them as a result of evasion of taxes and (or) levies by concealing or deliberately understating the tax base, or by evading from filing a tax return, or by knowingly indicating false information therein, which entailed losses on large or particularly large scale).

Currently, Belarus undertakes the coordinated efforts with involvement of all relevant government authorities to amend Article 235 (Laundering of Tangible Assets Obtained in Criminal Manner) of the Belorussian Criminal Code, including removal of Remark 1 to this Article, as a result of which all tax crimes will be considered as predicate offences to money laundering.

In Ukraine, the tax crimes punishable under Articles 212 and 212<sup>1</sup> of the Ukrainian Criminal Code are not predicate offences, since they are covered by the exemptions set forth in paragraph 2 of clause 1 of Article 1 of the Ukrainian Law on Combating Money Laundering and Terrorism Financing (hereinafter the Law). At the same time, the tax crime under clause 2 of Article 222 is the predicate offence, since it is punishable by imposition of the fine in amount of over three tax-free minimum incomes which is in line with the requirements set forth in paragraph 2 of clause 1 of Article 1 of the Law.

At present, Ukraine drafts the law that will classify tax crimes as the socially dangerous actions that are predicate offences to money laundering.

### **1.3. Breakdown of Tax Revenues and Assessment of Most Harmful Tax Crimes**

Presented in Annex 3 is the breakdown of tax revenues of the surveyed countries. It should be noted that since not all countries provided information on the amount of their tax revenues, it was impossible to assess the amounts received from particular sources in certain countries.

**In Belarus**, the largest sources of the government tax revenues in 2012 were: VAT (28.8%), foreign economic activity taxes (16%), profit tax (12.4%) and personal income tax (12.3%).

The government budget suffers primarily from non-payment of VAT when commodities and material assets are illegally imported to the Republic of Belarus from the Customs Union member countries for further sale in Belarus. The imported commodities are sold by individuals or business entities for cash without payment of any taxes or are accounted for with the use of false documents provided by the Belorussian dummy companies and sold against cashless payment. Such illegal arrangements allow for evading the so-called import VAT and also make it possible to minimize the amount of payable profit tax.

**In Lithuania**, the government tax revenues come primarily from payment of VAT, excise duties and personal income tax. The major losses are caused by VAT fraud and fraudulent accounting.

**In Turkey**, the largest sources of the government tax revenues in 2011 were: special consumption tax (25.3%), personal income tax (19.2%) and domestic VAT (19.2%).

Tax crimes are committed both domestically and internationally. Domestic tax crimes are committed by evading taxes which is possible due to a large shadow sector of the economy and widespread cash payments and transactions, while at the international level corporations and offshore companies increase their revenues by attracting financial assets of individuals.

The most widespread methods and ways of committing tax crimes are as follows:

- Abuse of tax exempt status and other government exemptions;
- Manipulation of accounting records and conspiracy among businesses;
- Manipulation of accounting books and documents;
- Understatement or overstatement of amounts of financial transactions;
- Issuance and use of false invoices;
- Transfer pricing;
- Theft of personal data, opening bank accounts under fictitious names, or registration of property or businesses using fictitious names.

**In Russia**, the main sources of the government tax revenues in 2012 included: mineral extraction (mining) tax (2,459.4bln rubles), profit tax (2,355.4bln rubles), personal income tax (2,260.3bln rubles) and VAT (1,186.1bln rubles).

The Russian budget suffers primarily from tax crimes related to evasion of VAT and profit tax by legal entities and also from evasion of personal income tax. This conclusion follows from the estimated scale of latent tax crime which is premised on a huge number of the so-called fly-by-night companies operating in the market. Such companies are widely used for evading the aforementioned taxes. Besides that, entities operating in the non-government sector often understate the amount of official wages compared to actual remuneration they pay to their employees.

In addition to that, the budget suffers significantly from illegal VAT-refund payments, since in this case, apart from non-payment of taxes, funds are illegally withdrawn from the budget.

**In Uzbekistan**, the government budget suffers mainly from evasion of taxes and other mandatory payments into the budget through the use of fly-by-night companies which serve as a tool for withdrawing cash in particularly large amounts.

Used **in Ukraine** are about one hundred various ways and methods for evading from payment of taxes and insurance contributions, the most notorious of which are:

- Concealment of taxable income by:

- Overstating material expenses in the source accounting documents (accounting for customer's materials as expenses, issuing false documents for writing-off materials as used in production, indicating fixed cost in expense reports, listing straw men in payroll sheets, overstating price of purchased goods in waybills and other documents, overstating amounts payable in payroll sheets, entering data on non-received goods in accounting records, writing-off allegedly lost materials);
- Overstating material expenses in the accounting records (reflecting estimated expenditures as expenses incurred in the accounting period, recording the value of consumable supplies as the fixed asset value);
- Overstating material expenses in the profit and loss statements;
- Understating received income in the source accounting documents (understating quantities of purchased goods, understating prices of sold goods, making payments by goods (the so-called black barter trade);
- Understating received income in the accounting records (operating non-registered retail outlets, understating revenues received for lease of durable equipment, buying and selling commodities and material valuables for cash);
- Understating received income in the reporting documents (understating received income in general ledger and balance sheet, understating received income in profit and loss statement);
- Understating taxable income by: establishing unregistered entities, overstating payroll expenses, overstating number of employees, obtaining tax exempt status in illegal way);
- Concealment of profit by colluding with managers of companies that have tax exempt status (fake lease of fixed assets to entities that have tax exempt status and transfer of the received revenues to bank accounts of entities that are exempt from taxation);
- Using various ways and methods of illegal self-liquidation and committing fake crimes (fake theft, robbery, etc.).

#### **1.4. Conclusions under Section 1**

The comparative analysis of the information received from the surveyed countries on actions of individuals that are classified as tax crimes and on liability for such actions revealed commonalities and differences as well as specificities in these countries.

However, the received data and the conclusions derived from their analysis are insufficient for recommending countries to adopt be the best practices of other countries. At the same time, the relevant stakeholders may wish to independently conduct further detailed analysis of the wording of articles pertaining to tax crimes based on the results of this research.

The analysis of current compliance by the surveyed countries with the FATF recommendation to include tax crime as predicate offence to money laundering

shows that only two countries have not fully implemented this recommendation, namely: Belarus and Ukraine. However, both countries are currently in the process of drafting relevant laws and regulations for rectifying non-compliances with this FATF recommendation.

Analysis of the breakdown of the tax revenues of the surveyed countries and analysis of the types (and methods of commission) of the most harmful tax crimes indicates that the financial intelligence units should take such data into account for implementing the risk-based approach. It should be noted, however, that the methods of committing tax crimes that “leave traces” in financial transactions are of primary relevance for the FIUs.

## **Section 2. Efforts Undertaken by FIUs for Combating Tax Crimes and Fighting against Laundering of Tax Crime Proceeds**

### **2.1. Coordination of FIUs with other Government Authorities for Combating Tax Crimes and Laundering the Proceeds of such Crimes**

This subsection discusses involvement of the government authorities of the surveyed countries in detection and investigation of tax crimes.

**In the Republic of Belarus**, detection of tax crimes is assigned to the State Monitoring Committee and the tax authorities. Taking part in these efforts are also the Ministry of Internal Affairs and the State Security Committee. Preliminary (pretrial) investigation of criminal cases involving tax offences is conducted by investigators of the Investigative Committee of the Republic of Belarus.

Pursuant to the RB Law on Prevention of Money Laundering and Terrorism Financing dated 19.07.2000 the Financial Monitoring Department (based on the results of examination (analysis) of incoming reports on financial transactions that are subject to special monitoring and other available information, and where there are sufficient evidences proving that a financial transaction is related to ML or FT) makes decision to disseminate the relevant information and materials to one of the law enforcement agencies in compliance with the valid regulations on coordination of AML/CFT efforts (hereinafter the coordination regulations).

The Department also orders to suspend expense transactions where there are sufficient evidences proving that such financial transactions are related to ML or FT, if such transactions have not been suspended by a reporting entity engaged in financial transactions. The aforementioned order to suspend the expense transactions is communicated to the relevant reporting entity engaged in financial transaction not later than the next business day following the issue of such order.

Information on suspicious transactions may be disseminated to the prosecuting and investigative agencies at their request if financial transaction(s) of a concerned individual/entity is (are) related to gaining and laundering criminal proceeds. The grounds for provision of such information are set forth in the relevant regulations on bilateral coordination and cooperation.

Coordination between the financial monitoring agency and the tax authorities is arranged and implemented under the RB Law on Prevention of Money Laundering and Terrorism Financing dated 19.07.2000.

**In Lithuania**, the Financial Crime Investigation Service under the Lithuanian Ministry of Interior is the main government agency in charge of detection and investigation of tax crimes. At the same time, a prosecutor who coordinates a pre-trial investigation is authorized to entrust investigation of a particular crime to other pretrial investigative agencies.

It is important to note that the Financial Crime Investigation Service is the Lithuanian national financial intelligence unit. The Service signed the cooperation agreements with the National Tax Inspectorate, the Special Investigation Service and other law enforcement agencies of the Republic of Lithuania.

**In Tajikistan**, the RT Tax Committee and the Anti-Corruption Agency under the Government of the Republic of Tajikistan are in charge of detection and investigation of tax crimes.

The Tajik FIU is engaged in combating tax crimes through coordinating its efforts with the Tax Committee at requests and on a bilateral basis.

**In Turkey**, the functions related to detection and investigating tax crimes are assigned to the Tax Authority.

Upon detection of issues related to tax crimes in course of review and analysis of the relevant claims, or upon receipt of suspicious financial transaction reports, MASAK (the Turkish FIU) communicates this information to the competent tax authorities for conducting tax audits.

**In Russia**, the following government executive authorities are engaged in detection and investigation of tax crimes:

- The Federal Tax Service and its local offices (district and inter-regional tax inspectorates) within the respective scope of powers vested in them by the Russian legislation;
- The RF Ministry of Internal Affairs detects and investigates tax crimes. Besides that, the Ministry, jointly with the tax authorities, conducts tax audits and monitors completeness and correctness of calculation of payable taxes and levies;
- The RF Investigative Committee conducts pretrial investigation of offences covered by Articles 198-199.2 of the RF Criminal Code in order to decide whether or not criminal proceedings should be instituted. The RF Investigative Committee also responds to information and materials received from the tax authorities in compliance with paragraph 3 of Article 32 of the RF Tax Code;

- The Federal Financial Monitoring Services disseminates information and materials related to potential laundering of tax crime proceeds to the law enforcement agencies and tax authorities.

At the request of the law enforcement agencies and at its own initiative, the Russian FIU conducts financial investigations related to tax evasion. Based on the results of such investigations, the relevant information and materials are filed with the law enforcement agencies and tax authorities. Since the FIU was obliged to provide information and materials to the tax authorities by recently adopted Federal Law No.134-FZ dated 28.06.2013 on Amendments to Certain Legislative Acts of the Russian Federation Pertaining to Combating Illegal Financial Transactions, the actual coordination and cooperation between the Russian FIU and the tax authorities in fighting against tax crimes started just recently.

**In Uzbekistan**, pursuant to RU President Resolution No.PP-331 dated April 21, 2006 the Department on Combating Fiscal & Foreign Exchange Crimes and Money Laundering under the General Prosecutor's Office of Republic of Uzbekistan is the designated government AML/CFT agency and operates in the capacity of the national FIU.

Pursuant to the aforementioned Resolution the Department is also the independent specialized law enforcement agency under the General Prosecutor's Office of Republic of Uzbekistan, the main goal of which is to arrange for and implement operational, analytical and detective efforts aimed at combating tax crimes.

The Department performs the following functions and activities related to combating tax crimes:

- Enforcing the state fiscal policy, broadening the taxation base, increasing the coverage of taxpayers and completeness of taxpayer records, timely detecting and eliminating possible channels and mechanisms for tax avoidance and evasion, shadow economy mechanisms, and corruption;
- Reviewing and detecting mechanisms (schemes) of concealment of production output, profits (revenues), underreporting of volumes of sold products, goods (work, services), sales of unaccounted (without supporting documents) products (goods) by business entities, avoidance of registration with the state tax authorities responsible for registration of legal and natural persons engaged in commercial activities;
- Verifying correctness of calculation, completeness and timeliness of payment of taxes and other budget payments by business entities.

The divisions of the Department perform devective activities and inquiries, institute criminal proceedings and conduct their document audits.

As part of its efforts aimed at fighting against tax crimes, the Department interacts and cooperates with the state tax authorities and foreign exchange control authorities and agents, inter alia, by conducting joint audits/ inspections and sharing critical information.

The Department interacts and cooperates with the relevant departments of other law enforcement agencies, develops and implements current and long-term programs for combating tax crimes, money laundering and terrorist financing, exchanges information on tax and ML/FT offences, undertakes, jointly with other law enforcement agencies, efforts to share operational information, as well as to detect and detain persons who evaded taxes and committed tax and foreign exchange crimes.

The Department also ensures cooperation with other prosecutorial departments on the entire range of issues to procedurally support investigation of tax, foreign exchange, money laundering and terrorist financing crimes under the instituted criminal proceedings;

The National Tax Committee and the National Customs Committee are also engaged in detecting and investigating tax crimes within the scope of powers vested in them.

Pursuant to paragraph 5 of Article 345 of the Uzbek Criminal Procedure Code investigation of the crimes punishable under Article 184 of the Criminal Code may be conducted by different authorities.

Article 344 of the Criminal Procedure Code of Uzbekistan specifies that pretrial investigation is conducted by investigators of the prosecutorial authorities, internal affairs authorities and the National Security Service.

**In Ukraine**, pursuant to the national Criminal Procedure Law the investigative departments of the internal affairs authorities and the agencies that supervise compliance with the tax legislation are in charge of investigation of crimes covered by Articles 212, 212<sup>1</sup> and 222 of the Criminal Code.

The supervisory authorities may also detect tax crimes within the scope of powers vested in them and report the detected breaches/ offences to the law enforcement agencies.

Besides that, based on the results of processing and analysis of the information provided by entities that are subject to initial and government financial monitoring and by other government agencies, and where there are sufficient grounds to suspect that a financial transaction or a customer is related to commission of the actions covered by the Ukrainian Criminal Code (including those punishable by Articles 212, 212<sup>1</sup>, 222), the State Financial Monitoring Service disseminates the summarized information/ materials to the relevant national law enforcement or intelligence agency.

## **2.2. Tax Crime Typologies Most Relevant for FIUs**

**The Lithuanian FIU** indicated two most relevant tax crime typologies: VAT fraud through the use of dummy companies and carrying out dummy transactions; and reduction of the government tax revenues due to the use of offshore companies.

**The Belorussian FIU** indicated the following most relevant typologies:

- a) Individuals perform trading operations without government registration and pay no taxes. Goods are purchased and further sold for cash or e-money. This typology is a widespread method used in the Internet and such operations may be performed by managers of business entities who buy and sell a portion of goods for cash without reflecting them in the accounting records and without payment of taxes.
- b) Individuals perform trading operations without government registration and pay no taxes. Goods are purchased for cash at minimum prices and then sold to consumer companies on behalf of and using the documents of pseudo business entities (front companies). Payments for the sold goods are made to bank accounts of such front companies with further withdrawal of cash.
- c) Unregistered individuals or managers of business entities perform trading operations without payment of any taxes. Goods are purchased from the Belorussian manufacturers against cashless payments with the use the registration documents and bank accounts of front companies. After that the purchased goods are sold for cash without payment of any taxes in Belarus or in the Customs Union member countries.
- d) Managers of business entities purchase goods for cash or through front companies and after that sell these goods, against cashless payment, to consumer companies at a price which is 30-300% higher than the purchase price. For minimizing the amounts of payable VAT and profit tax, business entities use front companies to register the purchase transactions and indicate in such records that the goods have been bought at a price that is just 1-5 percent lower than the sales price. Thus, they minimize their taxable income.
- e) Managers of business entities purchase goods abroad and then sell them through small retail outlets or over the Internet at a price which is 30-300% higher than the purchase price. For minimizing the amounts of payable VAT and profits tax, business entities use front companies to register the sales transactions and indicate in such records that the goods have been sold at a price that is just 1-5 percent higher than the purchase price. Thus, they minimize their taxable income.

Typologies that involve the use of pseudo businesses (front companies) are useful for the financial intelligence unit, since where the analysis shows that a business entity pays minimum taxes to the budget (less than 3-5 percent of the account turnover) it may indicate possible tax evasion by such entity.

**The Russian FIU** just recently became engaged in combating tax crimes that were classified as predicate offences by Federal Law No.134-FZ adopted on June 28, 2013.

At the same time, it should be noted that the following tax crime typologies are widespread in the national economy:

- a) Typology that involves the use of front companies for concealing taxable income of companies and evading VAT;

b) Integrated typology that involves tax evasion by companies engaged in sales of imported goods;

c) Integrated typology that involves tax evasion by companies engaged in sales/ purchase of jewelry.

The competent authorities have already gained practical experience in fighting against crimes related to illegal receipt of VAT refunds. The most frequently used are the following illegal VAT refund schemes:

**a) Fictitious trade scheme**

This scheme involves fictitious document turnover shown by taxpayers where no actual movement of goods (purchase, transportation, storage) takes place.

A taxpayer acting in the capacity of a buyer claims a VAT refund on purchased goods and by presenting fictitious document turnover pretends that the purchased goods have been sold. Quite frequently, only a portion of the previously purchased goods are fictitiously sold.

The red flag indicators of this scheme may include a minimum number of employees, lack of warehouses (or the relevant warehouses are located in other region), absence of documents certifying purchase of goods which makes it impossible to identify the manufactures of such goods.

**b) Scheme involving advance payments to suppliers**

This scheme involves transfer of funds from a taxpayer account through a chain of suppliers (including fly-by-night companies) as partial payment for goods to be supplied (work, services to be performed) in future, where no goods are actually supplied (no work, services are actually performed).

A taxpayer, who claims a VAT refund from the budget, transfers funds to suppliers who, in turn, calculate VAT on the received advance payment and claim VAT return on amounts transferred to the next supplier in the chain as partial prepayment for supply of goods.

A taxpayer, who acts in the capacity of the final supplier in this scheme, is a fly-by-night company that calculates and pays no VAT on the received advance payment.

Money received in this way as the illegal VAT refund are further withdrawn as cash or are transferred abroad from the account of the fly-by-night company (fly-by-night companies in the chain) to bank accounts of foreign entities.

**c) Goods importation scheme**

**Sales of imported goods under commission sales agreement**

Through the use of this scheme taxpayers understate income received from sales of imported goods by entering in commission agreements for sales of imported goods in the territory of the Russian Federation.

Such taxpayers are importers that do not indicate sales of imported goods in their VAT returns, but claim a refund of the tax paid to the customs authorities.

**Artificial increase of cost of imported goods**

This scheme involves the use of fly-by-night company(s) as the intermediary(s) in the chain of payments and settlements between a taxpayer (trading company) and an importer. Through the use of this method the cost of imported

goods is artificially raised, and quite often the aforementioned false trade scheme is used as the extension of this mechanism.

The end purpose of this scheme is illegal receipt of VAT refund and also transfer of a portion of funds to bank accounts of foreign entities as payment for foreign (imported) goods.

#### **d) Goods exportation scheme**

This illegal VAT refund scheme is employed by taxpayers who export goods with the use of fictitious document turnover and with involvement of fly-by-night companies which allows for increasing the cost of imported goods. Commission sales agreements are also frequently used in this scheme.

The red flag indicators of this scheme may include the following: suppliers and consignors have no capital assets, personnel and transportation vehicles which may serve as the evidence of their inability to actually purchase, store and transport goods.

#### **e) Real estate scheme**

This scheme involves a series of sales of the same real estate within a short period of time with significant increase of its value through a chain of sellers which are fly-by-night companies or entities that immediately undergo reorganization or liquidation after completion of the deal.

The aforementioned sellers, being the taxpayers, claim a VAT refund from the budget after selling the real estate in the subsequent tax periods (quarters). At the same time, small amounts of payable taxes are indicated in the submitted tax returns.

The red flag indicators of this scheme may include the following: a limited number of entities, including affiliated ones, are involved in business operations, unsecured bills (notes) issued by the involved entities are used for payments, the involved entities have no assets, the sales price of the real estate grows significantly, deals/ transactions are performed within a short period of time.

#### **f) Construction project scheme**

This scheme involves illegal receipt of a VAT refund by a party to a construction project that acts in the capacity of both customer and developer and at the same time is affiliated with investor.

Under this scheme, undated unsecured bills (notes) issued by a customer/developer are used as collateral to secure repayment of the loan.

If upon completion of a construction project the aforementioned bills (notes) cannot be settled, the only way to repay the loan is the transfer of the ownership of the constructed facility (or of facility under construction) to the founder.

In course of financial investigations, attention should be paid to the following indicators and characteristics of parties (taxpayers claiming a tax refund from the budget and their counterparties) to suspicious transactions if there are grounds to suspect that VAT refund is illegal:

##### **1) Direct indicators:**

- Tax returns and accounting statements are not submitted;
- A manager (shareholder, founder) is on the list of wanted persons;
- The same person acts as the party (applicant, founder, manager) to/of transactions/ business entities (10 and more cases);

- A legal entity repeatedly changes its address;
- An entity is located at the address shared by a huge number of other entities;
- An entity is located in one region of the Russian Federation, while the shareholders (parties) of such entity reside in other RF regions;
- An entity has just one bank account opened in a region/city other than the region/city of its location;
- Information obtained from external sources or from other government authorities indicating that:

- Individuals are deprived of the right to be managers (founders, shareholders/ parties of an entity);

- An entity has no employees;

2) **Indirect indicators:**

- Submitted tax returns and accounting statements show no profits and losses;
- Account history shows no payments made for supporting the business operations (no payments of rental fees, payments for communal services, payments of electricity bills, etc.);
- Amounts indicated in tax returns and accounting statements are too small compared to the turnover on bank account;
- The same amounts are credited and debited to account (net of account maintenance fee), i.e. transactions are of a transit nature;
- Funds are deposited to and transferred from an entity's account within 1-3 business days;
- Accounts of a taxpayer and his/its counterparty are opened with the same bank;
- Amount of a VAT refund credited to account is promptly (within 1-3 business days) used for repayment of a loan;
- Funds transferred to account are withdrawn in cash;
- A taxpayer under investigation has obtained government registration immediately before carrying out transactions;
- Shareholders/parties (founders, executive officers) provide false passport details, including details of lost passports, for government registration of an entity.
- Information obtained from external sources or from other government authorities indicating that:
  - An entity has small number of employees (just 1 - 2 persons);
  - A taxpayer is not located at the address indicated by it in the Unified Government Register of Legal Entities;
  - An entity has no fixed and other assets.

The above list of red flags indicators is not exhaustive and may be changed and expanded following amendments to the legislation and evolving arbitration procedures.

**The FIU of Uzbekistan** indicates the following most relevant typologies related to tax crimes:

- Understatement of actual income received from sales of goods (performance of work, provision of services) and amount of payroll in tax returns;
- Misuse of (full or partial) exemption from taxes and other mandatory payments;
- Concealment of taxable assets or understatement of their actual parameters (e.g. actual area of plots of land, cost of immovable and movable property, etc.);
- Understatement of customs value of imported goods.

### **2.3. Red Flag Indicators of Suspicious Transactions and Parties thereto Possibly Related to Tax Crimes**

**The Belorussian FIU** identified the following indicators of transactions potentially related to tax crimes:

- Minimum payments (revealed in course of analysis) made by an entity to the budget (less than 3-5 percent of total turnover on account);
- A business entity operating in real sector of economy is actively engaged in large scale transactions with pseudo business entities (front companies);
- Large amounts of cash are withdrawn from account.

Besides that, the legislation of Belarus contains another 65 indicators of suspicious transactions some of which may indicate commission of tax crimes:

- Unreasonable increase in turnover of funds on account of a party engaged in financial transactions in over three times compared to average monthly account turnover (turnover during previous month);
- Financial transaction is inconsistent with business profile of a party to such transaction;
- A party engaged in financial transactions repeatedly transfers funds from his/its account to other account opened by him/it with other bank with further return of approximately the same amounts of funds back to the first account;
- A party engaged in financial transactions withdraws cash from a bank till points and (or) transfers funds to card accounts or to accounts of individuals (as compensation of expenses incurred by them) in amounts that exceed the established threshold;
- A financial transaction has no economic rationale, transactions involving repeated sales and purchase of the same item;
- Repeated financial transactions involving withdrawal of cash from a bank till points and transfer of funds to card accounts or to accounts of individuals (as compensation of expenses incurred by them), or involving deposition of cash in a bank which is then credited to the beneficiaries'

accounts, in amounts that are just under or equal to the established threshold;

- A party engaged in financial transactions gives unusual or excessively complex payment instructions that differ from his/ its normal business practice or from normal market practice. A customer repeatedly changes the ways of discharging contractual obligations;
- A party engaged in financial transactions repeatedly carries out high-risk financial transactions that result in constant earnings gained or constant losses incurred by such party;
- Significant (more than threefold) increase in cash deposits to account of a party engaged in financial transactions where such party normally receives non-cash payments. A party engaged in financial transactions grants (receives) a loan, the amount of interest and (or) fees receivable (payable) on which differs significantly from normal market practice;
- A party engaged in financial transactions ignores more advantageous terms and conditions of a transaction (higher commission rates, higher deposit interest rates, etc.). A party engaged in financial transactions offers unusually large remuneration or remuneration that differs from that typically paid for a given type of services;
- A resident party to financial transactions repays advance payment received from a non-resident under the agreement for supply of goods (performance of work, provision of services) when such transactions (repayments) are performed on a repeated basis;
- Payment of a penalty (fine), compensation and making other payments unrelated to payment for the subject of a deal/transaction in amount that differ significantly from normal market practice;
- A party engaged in financial transactions repeatedly withdraws the received income in cash, or transfers it to card accounts, or use it for purchasing foreign currency cash, where amounts of such financial transactions are inconsistent with business profile of such party;
- Amount of funds transferred to/from account of a party engaged in financial transactions significantly exceed his/its business capabilities or declared performance indicators. Large financial transactions carried out by entities that have been incorporated just six month earlier;
- A party engaged in financial transactions repeatedly carries out transactions that make no economic sense and involve receipt of funds from several counterparties with further transfer of all or most of such funds, inter alia, for foreign currency purchase or conversion, made on one-off or repeated basis during the considered period;
- A party engaged in financial transactions transfers (receives) funds under marketing, consulting or research service agreements;
- A series of financial transactions, each of which is not suspicious, but in combination cause suspicion that they are carried out for: evasion of taxes

and levies (duties), decreasing of payable customs duties through false declaration of imported goods, money laundering and/or financing of terrorist activities;

- Obvious discrepancy between contractual and actual value of a subject of a deal/ transaction (except for real estate and title thereto);
- Contractual value of a real estate (title thereto) differs significantly from the market value of such real estate (title thereto);
- A party engaged in financial transactions repeatedly carries out similar financial transactions for splitting a large transaction and (or) avoiding registration in a special register.

**In Lithuania**, the Government adopted the list of criteria on the basis of which a monetary operation or transaction is to be regarded as suspicious or unusual one (Resolution No.677 dated 09.07.2008). The Lithuanian Government also adopted the list of criteria for considering a customer to pose low ML and/or FT risk and the list of criteria based on which the ML and/or FT risks posed by a customer are considered to be high (Resolution No.942 dated 24.09.2008). Each indicator that meets the criteria specified in the aforementioned documents may be useful/ helpful:

[http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=421113](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=421113)

[http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=421114](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=421114)

In addition to assignment of special codes to transaction reports filed by the reporting entities, **the Russian FIU** has implemented the system for automated identification of criteria of suspicious transactions and suspicious parties to transactions. Some of these criteria serve as direct or indirect indicators of possible tax crimes.

For example, the indicator of a transit nature of a transaction signals that a transaction has no economic rationale and also indicates possible attempt to extend the chain of counterparties to which budget the expenses of a corporate taxpayer may be unreasonably charged.

The set of suspicious indicators typical for fly-by-night companies is established and used for assessing corporate parties to transactions.

The aforementioned criteria (indicators) are identified by the automated categorization software built in the special IT platform of Rosfinmonitoring.

According to **the FIU of Tajikistan** transactions that involve transfer of funds to offshore zones are more likely, than other transactions, related to tax evasion. The FIU's IT system identifies such transactions which amount exceeds the established threshold.

**The Turkish FIU** presented the detailed list of red flag indicators of transactions and parties thereto possibly involved in tax crimes:

- a) Money laundering indicators for individuals:
  - Unusual transactions;
  - Buying assets (e.g. a house) on a relatively low income;
  - Buying assets (e.g. a house) far beyond market value;

- Getting a mortgage (loan) on a relatively low income;
- Party in property flipping transaction with no real estate background;
- Cash transactions with unknown persons (fictitious sale);
- Information from external sources (e.g. law enforcement agencies, mass media);
- Use of personal accounts for carrying out business transactions;
- Withdrawal of cash abroad;
- Unusual transactions involving transfer of funds abroad;

b) Tax return examination and pre-audit indicators:

- Unusual off-balance items;
- Non-transparent ownership;
- Ownership by relations/ partners of criminals;
- International structure with no apparent commercial, legal or tax benefits;
- Purchase or sale of the company's shares at a price far above or below estimated value;
- Companies/ directors registered at a foreign company services provider's address;

c) Information from external sources:

*Unusual balance sheet items*

- Ownership contributions of capital are not supported by previous tax returns;
- Interest accumulated on loans receivable or loans payable;
- Large cash holdings which are excessive for the business;

*Unusual profit and loss items*

- High rise in turnover/ sales;
- High rise of profit margin;
- Business ratio of costs and sales not in line with industry;

d) Audit indicators

*Unusual transactions and parties that raise suspicion*

- Entrepreneur demonstrates poor knowledge about their business;
- Transaction in goods or services non fitting company's profile;
- Transaction without an evident commercial basis;
- Transaction or agreements without relevant supporting documents;
- Transactions with offshore companies;
- Transactions with suspected criminals or their partners;
- Non-identifiable customers, creditors or lenders;
- Transactions with business associates or customers that share a common address;
- Transactions identified as asset sales but assets cannot be substantiated;

*Unusual money flows*

- Payments to or from third parties who are not involved in the transaction;
- Payments to or from unrelated offshore companies or accounts;
- Company's bank account used as cash flow-through account;
- Non-transparent or non-verifiable origin of money;
- Denominations and currency not the norm in the industry;
- Bank deposits not declared as turnover (sales);
- Money flows without apparent economic reason or supporting documentation;
- Unusual use of credit cards or debt instruments.

*Unusual turnover/ sales*

- Significant increase in anonymous cash turnover/ sales;
- Large cash payments received for luxury goods sold;
- Large cash payments received for goods never delivered (fictitious buyer);
- Transactions without an evident commercial basis or supporting documentation on file;
- Transactions and agreements without related cost or relevant supporting documentation;
- Transactions with suspected criminals or their partners;
- Transactions in goods or services non fitting company's profile;
- General description of invoices relating to large cost items;
- Cost of sales invoiced by non-transparent corporations;
- Profit sharing agreements with no relevant economic basis;
- Lack of relevant supporting documentation;
- Costs made not leading to turnover/ sales.

**The FIU of Uzbekistan** indicated the following red flags of transactions potentially related to tax crimes:

- Transaction carried out by a business entity are inconsistent with each other (funds received on bank account for goods never sold);
- Delayed payment of taxes and other mandatory payments;
- Activities (transactions) of business entities are inconsistent with their core business;
- Sharp increase in account turnover inconsistent with normal (standard) business practice;
- Repeated withdrawal of cash from account;
- Repeated use of funds by business entities for granting loans and paying for services unrelated to their business;

- Decrease in amounts of cash deposited to accounts by business entities that receive payments in cash.

The above listed red flag indicators are included in the AML/CFT internal control rules of entities engaged in transactions with funds or other assets.

The Uzbek FIU provided all reporting entities with the software program that automatically assigns transaction codes to the aforementioned indicators. When filing a STR with the financial intelligence unit, a reporting entity shall necessarily indicate the relevant transaction code.

Besides that, the central and local offices of the National Tax Service of Uzbekistan perform analysis of risks with use of the unified taxpayer database which contains information received from internal and external sources.

Risk analysis is performed against the criteria divided into four basic groups:

- General characteristic (profile);
- Financial statements and tax returns;
- Taxes and other mandatory payments;
- Bank account turnover

Analysis of risks based on the general characteristics (profile) is performed against such criteria as: incorporation of a business entity and stability of its business operations; actual types of business activities of an entity; management change frequency; tax profile; financial standing; results of previous audits, etc.

Risks are determined against the *financial standing* criterion by analyzing accounts payable/ receivable, taxes payable, solvency and financial stability of a business entity.

Risk analysis also involves verification of the address of a business entity, i.e. whether or not it is located at the indicated address and whether or not such address is included in the lists of common registration addresses of fly-by-night companies.

The State Tax Committee of Uzbekistan has developed and operates the unified automated information system intended for collecting, processing and analyzing information on movement of goods and transport vehicles. This system allows, among other things, for detecting and identifying business entities that evade from payment of customs duties.

#### **2.4. Most Typical Methods of Laundering the Tax Crime Proceeds**

According to the **Belorussian FIU** proceeds of tax crimes are most frequently laundered with the help of organized crime gangs and with the use of stamps, primary accounting documents and other reference details of pseudo business entities (fly-by-night companies, front companies, etc.) controlled by such organized crime groups. This also involves laundering of illegal proceeds of executive officers and founders of business entities operating in real economy obtained through evasion of taxes and levies.

**The Lithuanian FIU** indicated the following ways and methods that are typically used for laundering the tax crime proceeds:

- VAT carousel fraud;
- The so-called “envelope wages”, where a business entity pays cash to its employees;
- Forgery of documents, creation of offshore companies, operation of networks of fictitious companies and payments for goods/ services never delivered/ rendered;
- Use of illegally modified codes of excisable goods (this allows criminals to evade taxes and become subject to zero tax rate).

According to **the Russian FIU** the most typical method of laundering the proceeds of tax crimes involves transfer of funds using the “shadow services” schemes for withdrawing cash or transferring such funds abroad to accounts controlled by criminals with further purchase of various goods, services and property (real estate).

According to **the Turkish FIU (MASAK)** the most widespread methods of laundering the proceeds obtained as a result of tax evasion are as follows:

- Financial profits gained through evasion or partial payment of taxes are accounted for as income from commercial transactions and, thus, legal income is commingled with illicit proceeds.
- Fictitious sales: Criminal proceeds are accounted for as proceeds from sales. Since criminal proceeds are received primarily in cash, in many cases goods are fictitiously sold for cash in such way as to avoid detection of any links between customers and source of origin of the money. In this case superficial analysis of information and available documents may be not be enough and may not raise suspicions of money laundering.

In reality, the following happens: A criminal deposits illegal proceeds to a commercial bank account together with proceeds from legal sales. Illegal funds are accounted for (in the accounting records) in such manner as to give them appearance of revenues from legal activity and extra profits are declared as tax refunds. A company may even not need to pay taxes on extra profit if it shows trade losses and falsely claims tax deductions.

Income sources: Sales and illegal cash or deposits

Placement: Commingling legal and illegal proceeds on commercial bank account.

Layering: Legal and illegal income

Justification: Tax refunds, financial statements, sales, accounting records

Investment: Money laundering.

According to **the FIU of Uzbekistan** the typical methods of laundering the proceeds of tax crimes involve the following:

- Investment of criminal proceeds as the contribution into the registered capital of other business entities;
- Transfer of funds to accounts of controlled companies as loans.

## **2.5. Use of Information Systems and External Information Sources for Detecting Tax Crimes**

**The Lithuanian FIU** (Financial Crime Investigation Service) interacts with other law enforcement agencies through the Joint Center for Analysis of Criminal Information (the goals and objectives of the Center include monitoring of the crime level, performing analysis of circumstances and causes of criminal trends and sharing information on organized criminal groups and serious crimes for searching and seizing criminal proceeds), cooperates with the National Tax Inspectorate through the Risk Analysis Center (the goals and objectives of the Center are to share information, analyze various breaches of the tax law and identify threats to the government budget and financial system), and also uses the social insurance database, the register of residents and the tax administrator database.

**The FIU of Tajikistan** reveals the elements of tax crimes primarily through the access to the Tax Committee database.

For revealing the elements of tax crimes **the Russian FIU** uses the following external information resources integrated into the unified database:

- Legal entity accounting statements database;
- Database containing information on invalid passports of the Russian citizens;
- Database containing information on fly-by-night companies;
- Databases of the Unified Government Registers of legal entities, unincorporated entrepreneurs and taxpayers.

For detecting tax crimes **the FIU of Uzbekistan** requests and receives, free of charge, information needed for undertaking the AML/CFT measures that is contained, inter alia, in the automated information and inquiry systems and databases.

For detecting tax evasion cases the Uzbek FIU uses the following external information resources:

- Databases of the national tax authorities;
- Databases of the registering and licensing authorities (in charge of registration of companies and real estate, issuing licenses, etc.);
- Information on transactions carried out on accounts of business entities.

Especially noteworthy is the Ukrainian experience related to integration of information resources of various government authorities and agencies engaged in combating ML/FT.

Pursuant to the Resolution of the Cabinet of Ministers of Ukraine on the Unified Government AML/CFT Information System the relevant data from the databases that contain information on status and operations of entities and

individuals who carry out financial transactions are integrated into the unified information system for conducting comprehensive analysis of financial transactions (including those related to tax crimes) suspected of being related to ML/FT.

The Unified Government Information System provides for coordinating the efforts and sharing the information among the relevant government authorities engaged in the AML/CFT activities within the respective scopes of power vested in them and also allows for conducting comprehensive in-depth analysis of information on illegal proceeds or proceeds used for FT purposes and identifying ways and methods of laundering such proceeds, and is used for providing information support for the development and implementation of the AML/CFT measures.

The government authorities provide the following data to **the Ukrainian State Financial Monitoring Committee** that are further used for analyzing financial transactions and other relevant information:

- 1) Information and data provided by the Ukrainian Ministry of Internal Affairs:
  - Information on individuals against whom criminal proceedings are instituted;
  - Information of individuals who possess firearms;
  - Information on wanted persons who hide from investigation or from court trial and who are missing;
  - Information on lost passports;
  - Information on persons who are held liable for committing offences punishable by Articles 44, 1641, 1642, 1645, 1891 and 190 – 193 of the Ukrainian Code of Administrative Offences;
  - Information on registered transport vehicles;
  - Information on stolen transport vehicles, firearms and antique items.
- 2) Information and data provided by the Ukrainian Ministry of Revenues and Duties (integrated State Tax Service and State Customs Service of Ukraine):
  - Information contained in electronic copies of customs cargo declarations;
  - Recorded details of taxpayers and information on their bank accounts registered by the tax authorities;
  - Information on income received and taxes paid by taxpayers.
- 3) Information and data provided by the Ukrainian State Statistics Committee:
  - Data contained in the Ukrainian Unified Government Register of Companies and Organizations.
- 4) Information and data provided by the Ukrainian National Securities and Stock Market Committee:
  - Data from the register of the professional securities market players (traders, custodians, depositaries, joint investment institutions,

- investment fund managers), self-regulatory organizations established by professional securities market players and securities market operators;
- Information from quarterly reports of securities traders regarding positions under agreements that are closed as of a reporting date;
- Information on shareholders who hold ten and more percent of the equity capital of issuers of shares;
- Information on net asset value per one security (stock, investment certificate) and on securities portfolio of joint investment institutions;
- Information on registered securities issued by joint stock companies and entities included in the list of bond issuers.

5) Information and data provided by the Ukrainian State Agency for Land Resources:

- Information on registration of plots of land, real estate and titles thereto as per the Government Register of Titles to Land and Real Estate.

**Another goal of this typology research is to identify the best practices for preventing the use of front companies and front man accounts.**

Special attention should be paid to the experience of **Belarus** in fighting against the use of front companies and accounts of straw men.

In order to prevent the use of pseudo business entities (front companies) in tax evasion schemes the financial investigation agencies of the State Control Committee (the Belorussian FIU) and the tax authorities conduct audits of counterparties of pseudo business entities for charging additional taxes as well as for collecting taxes that have been evaded through the use of front companies. If the obtained evidences prove the intentional nature of transactions with the aforementioned front companies that resulted in non-payment (evasion) of large amounts of taxes, the criminal proceedings are instituted against the executive managers of real business entities under Article 243 of the Criminal Code and audits are conducted under Article 235 of the Criminal Code.

For enhancing efficiency of the measures described above the RB Presidential Decree No.332 on Certain Measures to Improve Oversight (Supervision) in the Republic of Belarus was drafted and adopted on July 26, 2012. This Decree includes provisions that empower the oversight authorities to arrange for unscheduled audits of business entities and unincorporated entrepreneurs, inter alia, immediately after their registration, if there is evidence that they engage in transactions with entities that have characteristics of pseudo businesses (front companies).

Besides that, pursuant to RB Presidential Decree No.488 dated 23.10.2012 on Certain Measures to Prevent Illegal Minimization of Tax Liabilities (hereinafter the Decree) the register (list) of business entities and unincorporated entrepreneurs with high risk of committing economic crimes is established. This register (list) is

unclassified and publicly available (posted on the official website of the Ministry of Taxes and Levies). The said Decree specifies criteria for inclusion of entities in the register (list). In general, the criteria are identified with consideration of the known pseudo (false) businesses typologies for prompt listing of such entities. The Decree also clearly defines the taxation procedure applicable to transactions carried out with the use of invalid primary accounting documents, including transactions with front companies. The oversight authorities independently make decisions to declare primary accounting documents void if they have and (or) received from law enforcement agencies an evidence disproving the fact of actual business transaction.

This register (list) also allows bona fide business entities to obtain information on business reputation of a potential counterparty when making decision on entering into transaction with it. In order to prevent the use of pseudo businesses by mala fide entities the Decree and mass media clarified the implications of entering into transactions with such front companies.

For detecting front companies and straw man accounts **the Lithuanian FIU** conducts risk-based analysis and reviews the activities carried out by companies, their headcount and wages paid to employees.

For enhancing effectiveness and efficiency of measures aimed at preventing the use of front companies **Tajikistan** included special Articles in the Tax Code that impose liability for the use of front companies.

**In Uzbekistan**, the following measures appeared to be the most effective for preventing the use of such methods for the tax evasion purposes:

- Upon revealing facts of the use of front companies and straw men, the courts prohibit such individuals from holding, for a certain period of time, job positions related to discharging administrative and management functions and entering into legally binding arrangements and also prohibit them from operating in the capacity of unincorporated entrepreneurs;
- The Department, tax authorities and other law enforcement agencies perform continuous monitoring of business entities that share the same (common) registration addresses.

**Ukraine** uses a set of measures for fighting against the use of front companies. Such companies are widely used in operations conducted by business entities and may be employed for carrying out illegal financial transactions which can be subdivided into two major categories:

- Transfer of funds into the shadow sector of economy;
- Laundering of illegally obtained funds.

Charging of additional taxes that have been evaded by real businesses through cooperation with fictitious companies is a multi-stage process that includes the following steps undertaken by the tax authorities:

- a) Identifying entities that are not actually located at their legal addresses, do not file tax returns with the tax authorities. etc.
- b) Declaring the foundation documents of fictitious companies null and void.
- c) Declaring transactions between real companies and fictitious business entities invalid.
- d) Charging and collecting the evaded taxes based of the formal reports on auditing of real companies engaged in business operations and financial transactions with fictitious business entities.
- e) Instituting criminal proceedings against executive officers of real companies based on evidences of business operations and financial transactions carried out by them with fictitious business entities.
- f) Maintaining complete comprehensive databases on identified fictitious business entities with indication of all details and other information regarding such fictitious businesses which registration is cancelled and also on real companies that have been engaged in business operations and financial transactions with fictitious business entities with detailed description of such operations/ transactions.
- g) Cancelling government registration of fictitious business entities by court ruling.
- h) Arranging for effective coordination among the Tax Service departments and with the FIU in course of these activities.
- i) Freezing funds on accounts of fictitious business entities and seizing other assets owned by them.
- j) Creating and maintaining files on identified, in course of detective and investigative operations, founders of fictitious business entities, currency conversion centers, executive officers of real companies that have been engaged in large business operations and financial transactions with the fictitious business entities, bank employees that have conspired for supporting illegal activities of fictitious business entities and law enforcement officers implicated in activities of fictitious business entities.

## **2.6. Measures Envisaged by FIUs for More Efficiently Combating Tax Crimes and Fighting against Legalization of Tax Crime Proceeds**

To enhance efficiency of the efforts aimed at combating tax crimes and further laundering of tax crime proceeds **the Lithuanian FIU** arranges for and undertakes the following measures:

- Further analysis of international fraud cases and analysis of activities of fictitious companies;
- Analysis of suspicious transactions carried out on accounts of non-residents and offshore companies and analysis of relationships between non-residents and offshore companies, on one hand, and various Lithuanian financial services providers, on another hand;

- Analysis of reports on suspicious and unusual transactions and monitoring the transaction reports;
- Cooperation with the European Police Office (Europol);
- Cooperation with the countries that are not the EU members;
- Interagency cooperation and coordination (with the Customs Criminal Service, Customs Inspectorate and Criminal Police Bureau of the Republic of Lithuania).

In this year, the relevant amendments to the legislation of **Russia** were proposed and drafted for improving efficiency of the efforts aimed at combating tax crime. In particular, the RF President proposed to re-introduce the legislative provisions that allow for opening criminal cases over tax crimes on the basis of information and materials collected by the law enforcement agencies and not just based on evidences obtained by the tax authorities, as it is now.

The relevant draft Law on Recognizing Certain Provisions of the RF Legislative Acts as Null and Void was submitted to the State Duma (the Parliament) and posted in its database.

The provision of the RF Criminal Procedure Code according to which “when making decision on instituting criminal proceedings, only information and materials submitted by the tax authorities constitute the grounds for opening criminal cases over the offences covered by Articles 198-199 of the RF Criminal Code” was in effect for less than two years (since December 2011).

This constraint was one of the major reasons of low efficiency of detection and investigation of tax crimes, since the use of the results of detective efforts undertaken by the Russian law enforcement agencies involved in combating tax crime in the criminal prosecution was seriously impeded.

In this context, the Russian President considered that it was necessary to introduce a common procedure for opening criminal cases over the offences punishable under Articles 198-199.2 of the RF Criminal Code. This “would provide for integrated approach to fighting against economic crime and would allow for using the capabilities of the law enforcement agencies and the results of their detective efforts for documenting tax crimes and establishing criminal intent”.

For more effective and efficient fighting against tax crimes **the Russian FIU** plans to extend its cooperation and coordination with the RF Federal Tax Service, including the use of additional information resources of this agency (databases containing information of disqualified individuals, on bank accounts of legal entities, on legal entities’ annual average headcount, etc.). Besides that, it is planned to extend the set of automatically identified red flag indicators of suspicious transactions and parties to such transactions.

**The FIU of Tajikistan** signed the agreement on cooperation with the Tax Committee and plans to closely cooperate with it, which involves, in particular, updating of certain databases. It is also planned to hold additional AML/CFT training sessions and workshops.

In this year, **the FIU of Uzbekistan** plans to implement the following measures for enhancing effectiveness and efficiency of its efforts aimed at combating tax crime:

- Undertaking additional measures for preventing tax crimes, inter alia, through intensive outreach efforts aimed at raising awareness of public and business community of the issues related to the government tax and budget policy, taxation, exemptions and incentives provided by the government for supporting business activities;
- Undertaking enhanced efforts for detecting new channels and mechanisms of large scale tax evasion and developing measures for their destruction;
- Extending cooperation and coordination with the law enforcement agencies, tax and customs authorities, foreign exchange control authority and other oversight agencies.

At present, the State Financial Monitoring Committee of Ukraine drafts the law which will include tax crimes as predicate offences to money laundering.

## **2.7. Cases of interesting financial investigations related to tax crime analysis and/or legalization of criminal income**

### **Cases of Uzbek FIU**

#### *Case 1*

Officials of companies A and B concluded an overpriced equipment purchase agreement with a foreign company C and by that made a knowingly unprofitable bargain and seriously affected the interests of the Republic.

Subsequently companies A and B won a tender for equipment supply to state-financed organizations and imported overpriced office equipment, utilities as well as educational and laboratory equipment.

Besides the officials of companies A and B unlawfully used duty-free allowances and by that evaded customs clearance charges in an especially large amount. Later the resulted criminal income (concealed amounts of customs duties) was legalized by provision of long-term interest-free loans, replenishment of registered funds and dividend payments to their subsidiaries.

#### *Case 2*

Person A established several companies B, C and D on behalf of straw men and used those companies for illegal cashing. For example a company might be paid for completed work or provided services, use the money to buy marketable good and sell them for cash without depositing the proceeds to its bank account.

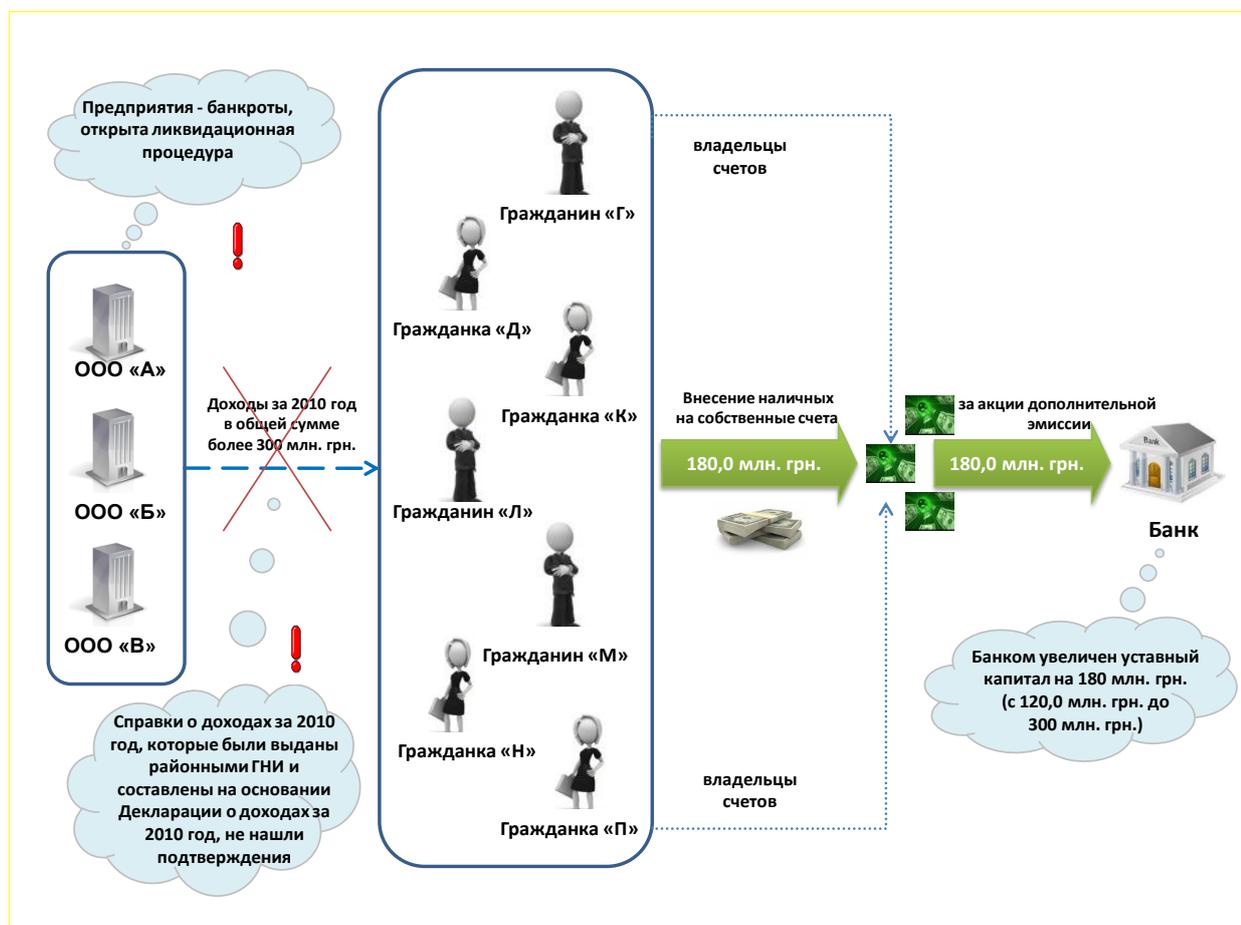
To evade the taxes, citizen A systematically underestimated the proceeds from sales in the financial and tax reports of companies B, C and D. Later to legalize his criminal income citizen A registered company E on his own behalf. To form an authorized capital for the new company he transferred the money from companies B, C and D as contributions from the cofounders. Later citizen A registered gratuitous

transfer of the shares belonging to the cofounders to himself and it came to pass withdraw from the boards of company E and took his share in the authorized capital of the company in the form of cash assets.

## FIU of Ukraine

### Case 1

Seven citizens of Ukraine placed cash on their accounts as their personal savings to the total amount of 180 million grivnas and on the same day the money were transferred to a financial institution as payment for an additional issue of shares made by that financial institution and thus increased the authorized capital of that financial institution from 120 to 180 million grivnas.



Предприятия-банкроты, открыта...	Bankrupt organizations, the process of liquidation has been started
ООО «А»	ООО А
ООО «Б»	ООО В
ООО «В»	ООО С
Доходы за 2010 год...	Income for 2010 in the total amount of more than 300 mln. grivnas
Справки о доходах за 2010...	Income statements for 2010 issued by the local divisions of the State Tax Authority and prepared on the basis of the Income Declaration for 2010 were not confirmed
Гражданин Г	Person G
Гражданка Д	Person D

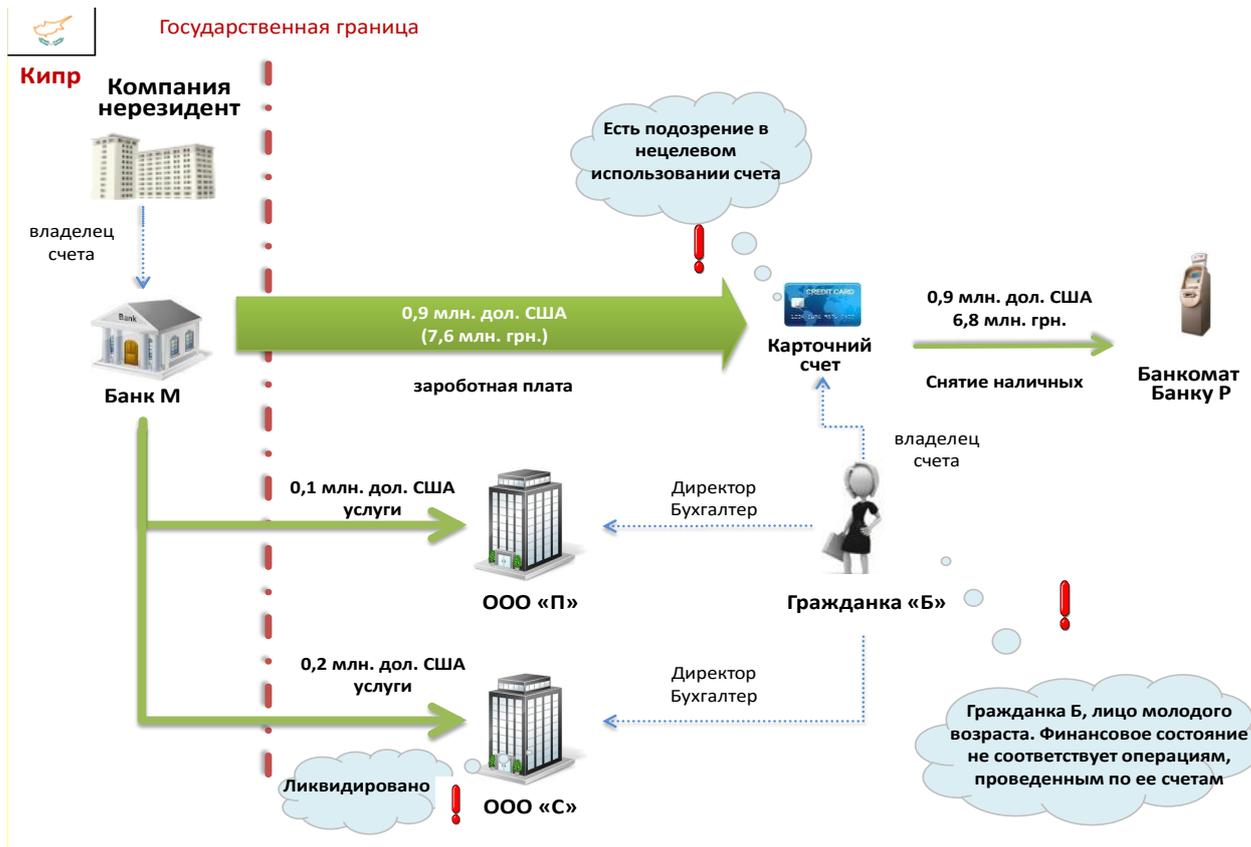
Гражданка К	Person K
Гражданин Л	Person L
Гражданин М	Person M
Гражданка Н	Person N
Гражданка П	Person P
владельцы счетов	Account owners
Внесение наличных...	Cash deposits to own accounts
180 млн грн.	180 mln grivnas
за акции дополнительной эмиссии	for additional emission of shares
Банк	Bank
Банком увеличен...	The Bank increased the authorized capital by 180 mln grivnas (from 120,0 mln grivnas to 300,0 mln grivnas)

To confirm their financial positions, the citizens provided the financial institution with their income statements that had been prepared on the basis of their income declarations. In these income declarations these citizens declared income from three corporate entities in the total amount of 289.1 grivnas. Verification revealed that none of the three corporate bodies accrued or transferred any income to the seven persons and no income tax was withheld or paid (as it was indicated in the income declarations).

**Case 2** To her card account person B received money from a Cyprus company as a wage. Later the owner of that account withdrew the money via ATMs. Person B is a young lady with insignificant amount of officially declared income and has not been registered as an individual entrepreneur. At the same time person B is an employee of two organizations one of which was liquidated as soon as the person cashed the money. Both organizations declared insignificant income and paid minimum possible taxes.

The same Cyprus company transferred fund to those organizations “for services”.

It shall be noted that the amount of 0.3 million USD transferred to the two abovementioned organizations “for services” was much smaller than the amount transferred to person B.



Кипр	Cyprus
Государственная граница	State border
Компания нерезидент	Nonresident company
владелец счета	Account owner
Банк М	Bank M
0,9 млн долл США (7,6 млн грн)	0.9 mln USD (7.6 mln grivnas)
заработная плата	wage
0,1 млн долл США	0.1 mln USD
услуги	services
ООО «С»	OOO S
Ликвидировано	Liquidated
Есть подозрение...	There is a suspicion in improper usage of the account
Карточный счет	Card account
Директор	Director
Бухгалтер	Accountant
Гражданка «Б»	Person B
Снятие наличных	Cash withdrawal
0,9 млн долл США (7,6 млн грн)	0.9 mln USD (6.8 mln grivnas)
Банкомат банка Р	ATM of Bank R
Гражданка Б, лицо молодого возраста...	Person B is a young lady. Her financial position does not correspond to the transactions performed in her account.

This may indicate an attempt to avoid payment of income taxes by the corporate entities under Person B's control and by Person B herself by transferring the money to a physical person as a wage.

### Case 3

Person G, person X's authorized representative, withdrew 48,9 million grivnas from Person X's account.

Originally the funds were transferred to Person X's account from Person Y's card accounts.

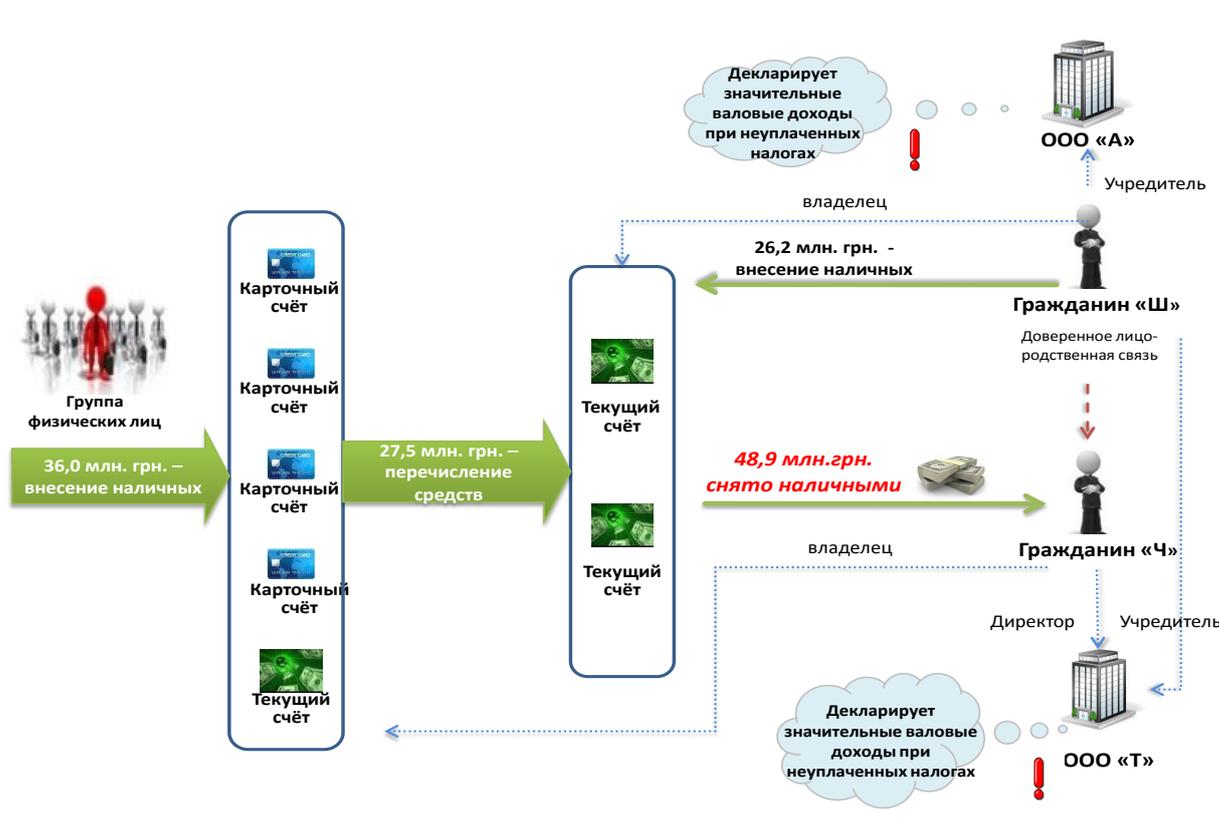
And the funds on Person Y's card accounts to the amount of 36,0 million grivnas were originally transferred by a significant number of physical persons from various parts of Ukraine.

There is no information on neither income not sale of any assets or land plots belonging to Person X or Person Y.

Person X and Y has the same registered address and may be relatives.

The physical persons are the officials of ООО А and ООО Т.

ООО А and ООО Т declare are used to declare significant income but pay no taxes.



Группа физических лиц	Group of physical persons
36,0 млн грн – внесение наличных	36.0 mln grivnas – cash deposit
Карточный счет	Card account
текущий счет	Current account
27,5 млн грн – перечисление средств	27.5 mln grivnas – transfer of funds
Декларирует значительные....	Declares significant gross income but does not pay taxes
ООО «А»	ООО А
владелец	Owner
учредитель	Founder

26,2 млн грн – внесение наличных	26.2 mln grivnas – cash deposit
Гражданин «Ш»	Person X
Доверенное лицо...	Authorized representative, relative
48,9 млн грн – снято наличными	48.9 mln grivnas – cash withdrawal
Гражданин «Ч»	Person Y
Директор	Director
ООО «Т»	ООО T

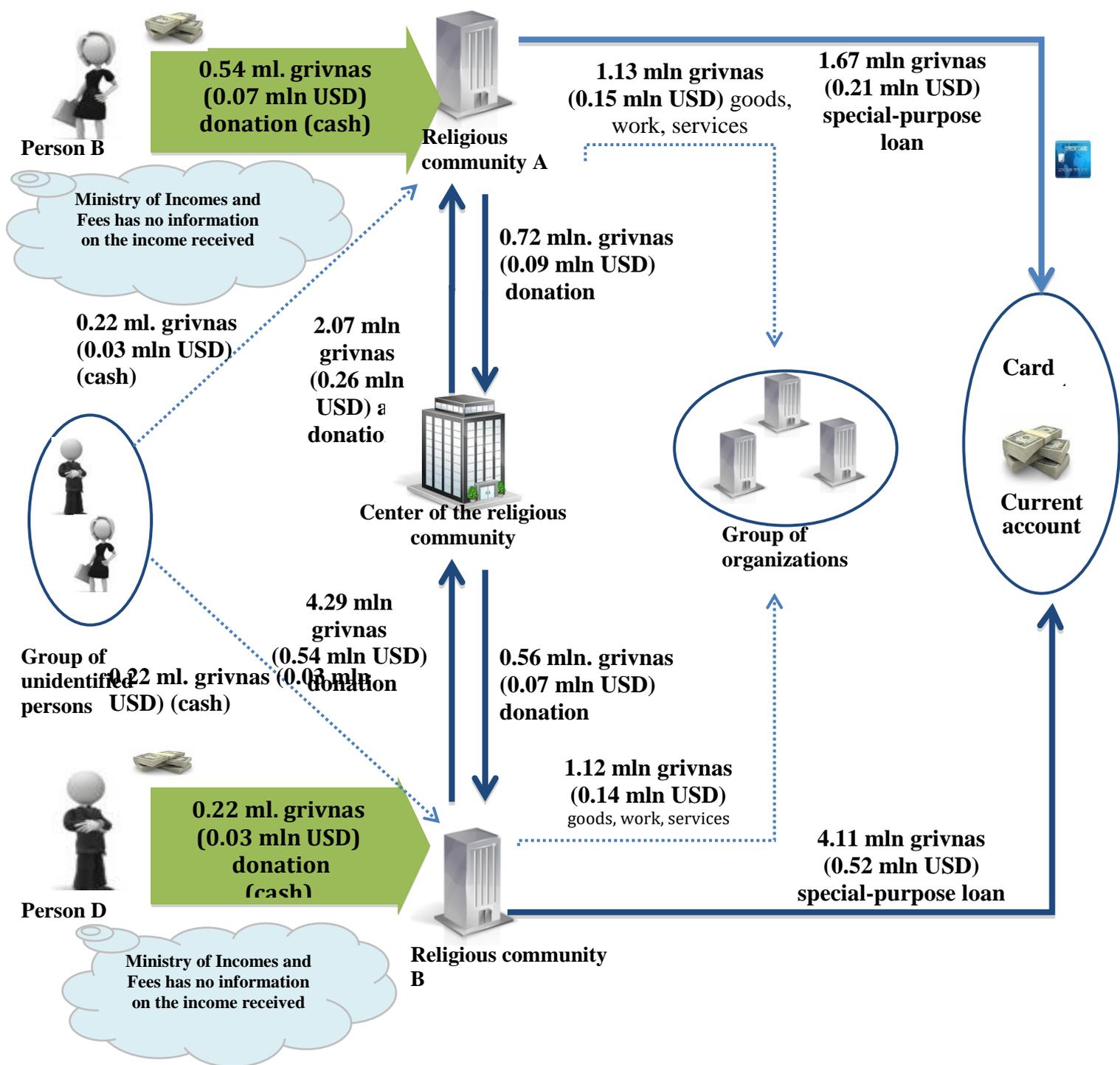
It means that the funds transferred to Person X's and Persons Y's accounts may be income from undisclosed business activity that had been performed by those persons or by their subsidiaries.

#### ***Case 4***

Physical persons make cash donations and charitable contributions to accounts of unprofitable organizations out of income from undisclosed business activity and then the deposits get transferred to card and current accounts of other physical persons.

Accounts of Religious Communities A and B were replenished with 1.2 million grivnas (0.15 mln USD) of free-will donations from Person B, Person D and a group of unidentified physical persons and 6.3 million grivnas (0.79 mln USD) from a Religious Community Center.

Later the Religious Community Center transferred a part of the money in the amount of 5.8 million grivnas (0.73 mln USD) to card and current accounts of physical persons as interest-free special-purpose loans to the total amount of 5.8 million grivnas (0,73 million USD).



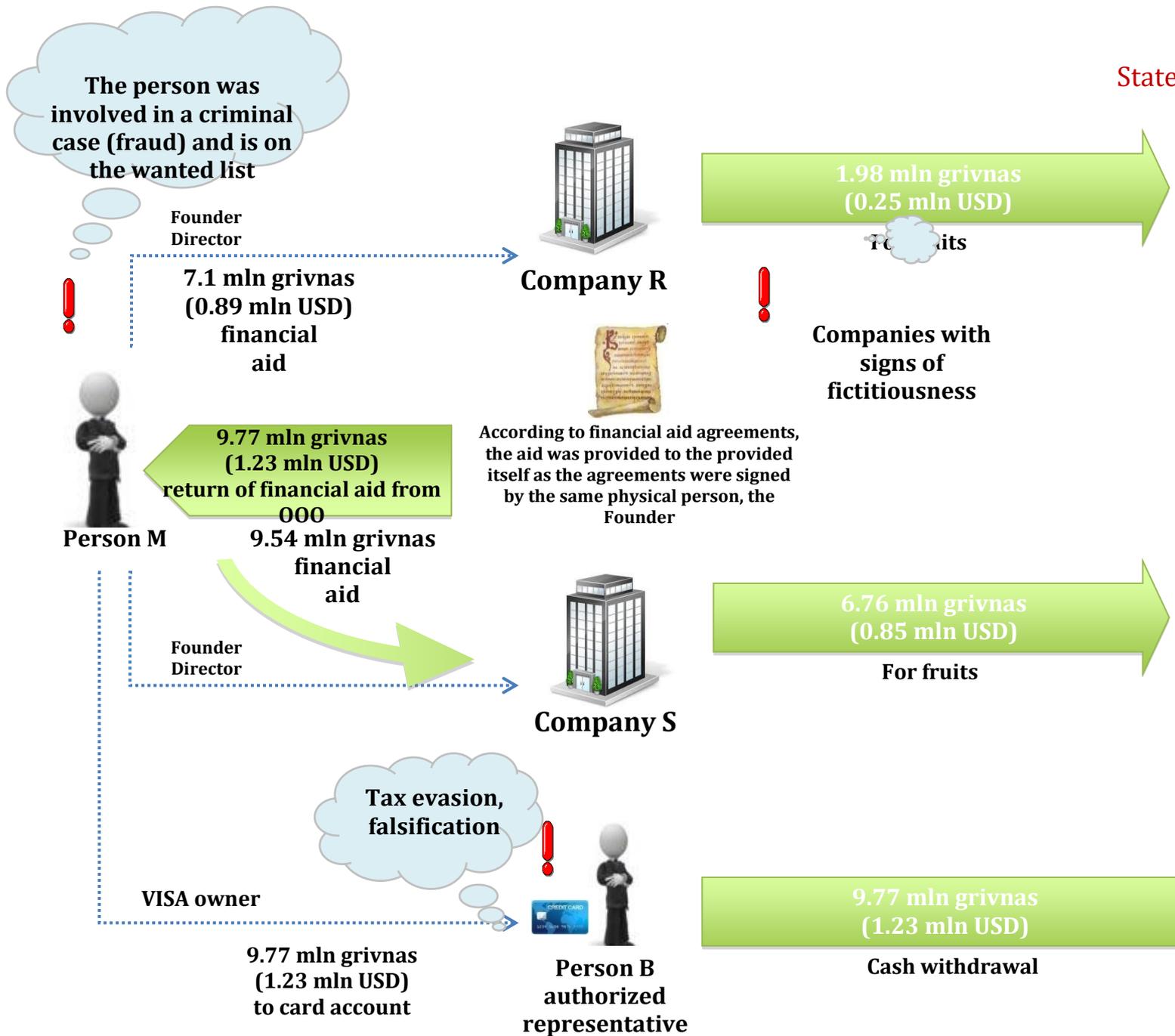
Financial investigation revealed that the settlement accounts of the religious communities were used to perform cash transactions with physical persons with the income from such transactions being the income from undisclosed business activity.

Based on the materials provided by the State Financial Monitoring Service, the Ministry of Incomes and Fees is carrying out an investigation.

The described mechanism included such instruments as free-will donations, charitable contributions, financial aid, card and current personal accounts as well as depositing and withdrawal of cash.

**Case 5**

A physical body previously brought before a court for tax evasion deposited cash being not his official income to accounts of subsidiary organizations in order to get it later as financial aid.



Person M makes cash deposits to accounts of Company R and Company S as a loan to the total amount of 16.6 million grivnas (2.08 million USD).

Person M is a founder and director of companies R and S. According to financial aid agreements, the aid was provided to the provider itself as the agreements were signed by the same physical person, Person M, acting both as the lender and as the lendee.

Later a part of the deposited funds was converted into another currency and used to pay nonresident companies "for fruits". Another part of the deposited funds in the amount of 9.8 million grivnas (1.23 mln USD) was withdrawn over the counter by an authorized representative, Person B.

It shall be noted that Person M and Person B were involved into criminal cases on a charge of fraud, tax evasion and document falsification.

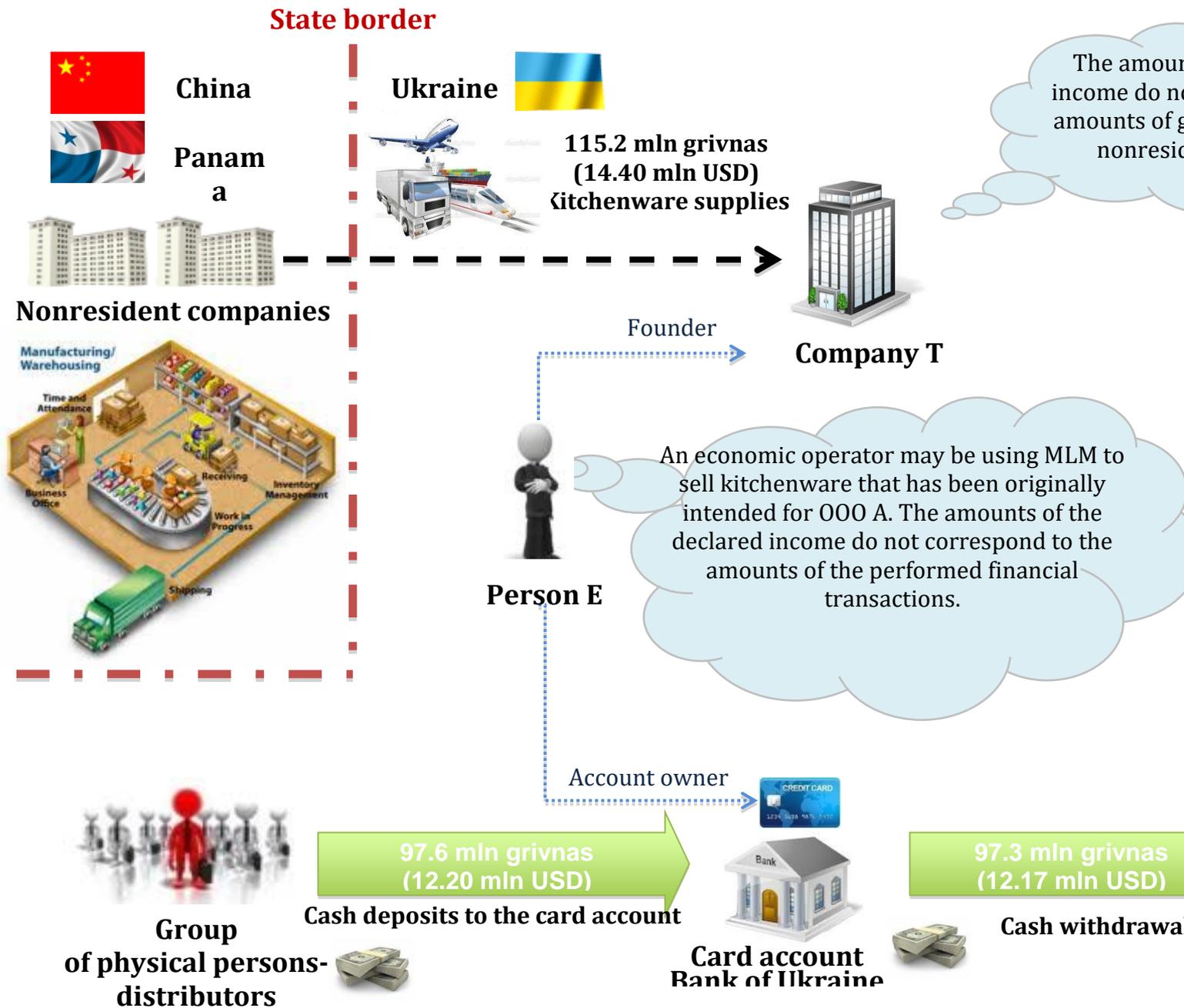
It means that the funds transferred to accounts of Companies R and S might be income from undisclosed business activity that had been performed by Person M or by organization under his control.

Based on the materials provided by the State Financial Monitoring Service of Ukraine, the Ministry of Incomes and Fees started an investigation for intentional tax evasion (Article 212 of the Criminal Code of Ukraine).

The described mechanism included such instruments as financial aid, paper companies, card and current accounts belonging to physical persons, cash deposits and withdrawals, and purchase of exchange.

#### ***Case 6***

The founder of a company built a multi-level marketing scheme that involved sale of consumer goods via physical persons, depositing proceeds from sales to the founder's card accounts and cash withdrawal.



Person E's card accounts were replenished by many people from various parts of Ukraine to the total amount of 97.6 million grivnas (12.20 million USD).

Later Person E withdrew money from the card accounts through ATMs and through the bank counter to the total amount of 97.3 million grivnas (12.17 million USD).

Person E was a subject of entrepreneurial activity and the founder of Company T that declared import of various kitchenware from nonresident companies registered in China and Panama to the total amount of 115.2 million grivnas (14.40 million USD).

The amounts of income declared by Company T and Person E were much less than the amount of the performed transactions.

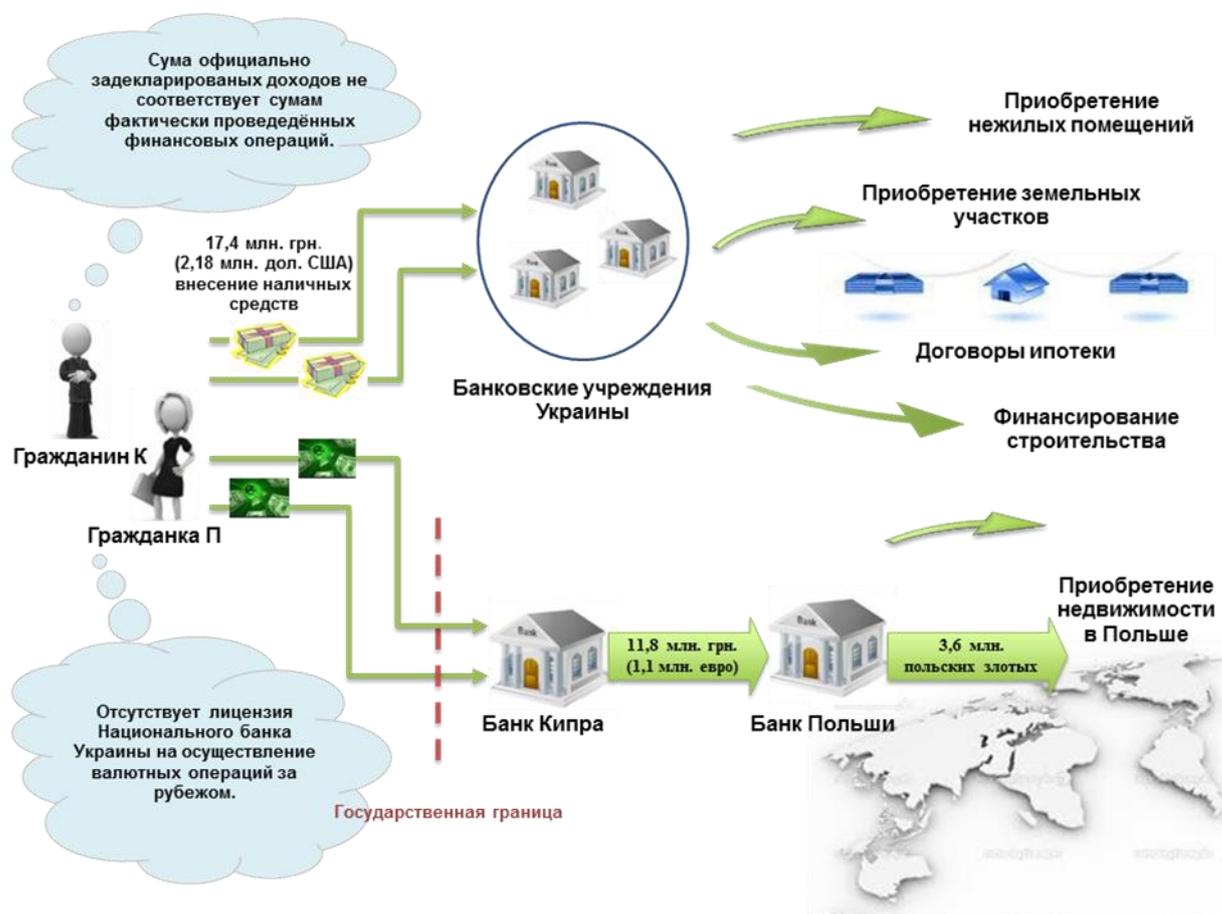
It means that the funds deposited to Person B's accounts may be income from undisclosed business activity, i.e. sale of various kitchenware made from China and Panama in the territory of Ukraine using MLM.

Based on the materials provided by the State Financial Monitoring Service, the Ministry of Incomes and Fees is carrying out an investigation.

The described mechanism included such instruments as card and current personal accounts, corporate card accounts as well as depositing and withdrawal of cash.

### Case 7

Some physical persons deposited their own accounts with significant amounts of cash which did not correspond to their officially declared income and then transferred the money abroad to buy real property.



Сумма официально...	The amount of officially declared income does not correspond to the amount of actually performed transactions.
3,6 млн. польских злотых	3.6 million Polish zlotys
Государственная граница	State border
17,4 млн грн (2,18 млн грн) внесение наличных средств	17.4 mln grivnas (2.18 mln USD), cash deposits
Гражданин К	Person K
Гражданка П	Person P
Отсутствует лицензия...	No license was obtained from the National Bank of Ukraine to perform currency transactions abroad.
Банк Кипра	Bank of Cyprus

Банк Польши	Bank of Poland
Договоры ипотеки	Договоры ипотеки
Банковские учреждения Украины	Bank institutions of Ukraine
Приобретение земельных участков	Purchase of land plots
Приобретение нежилых помещений	Purchase of non-residential properties
Финансирование строительства	Financing of construction
Приобретение недвижимости в Польше	Purchase of real estate property in Poland
11,8 млн грн	11.8 mln grivnas (1.1 mln USD)

Over a period of several years Persons K and P made cash deposits to their own accounts in various bank institutions of Ukraine to the total amount of 17.4 million grivnas (2.18 million USD).

Later the money was used to buy nonresidential properties, land plots and financing of real property construction as well as for purchase of three apartments in Kiev under mortgage agreements.

Besides Persons K and P made transfers from their own account in a Cyprus bank to the amount of 1.1 million euro (11.8 million grivnas) to their own accounts in a Poland bank.

Later 3.6 million Polish zlotys (8.9 million grivnas) were used to buy residential property in Poland.

The amounts of the Persons K's and P's declared income do not correspond to the amounts of the performed financial transactions which may indicate usage of undisclosed earnings.

Besides no license was obtained by Ukrainian citizens K and P from the National Bank of Ukraine to perform currency transactions abroad.

Based on the materials provided by the State Financial Monitoring Service of Ukraine, the Ministry of Incomes and Fees started an investigation for intentional tax evasion (Article 212 of the Criminal Code of Ukraine).

The described mechanism included such instruments cash deposits, personal card and current accounts (including those abroad), and purchase of real property both in Ukraine and abroad.

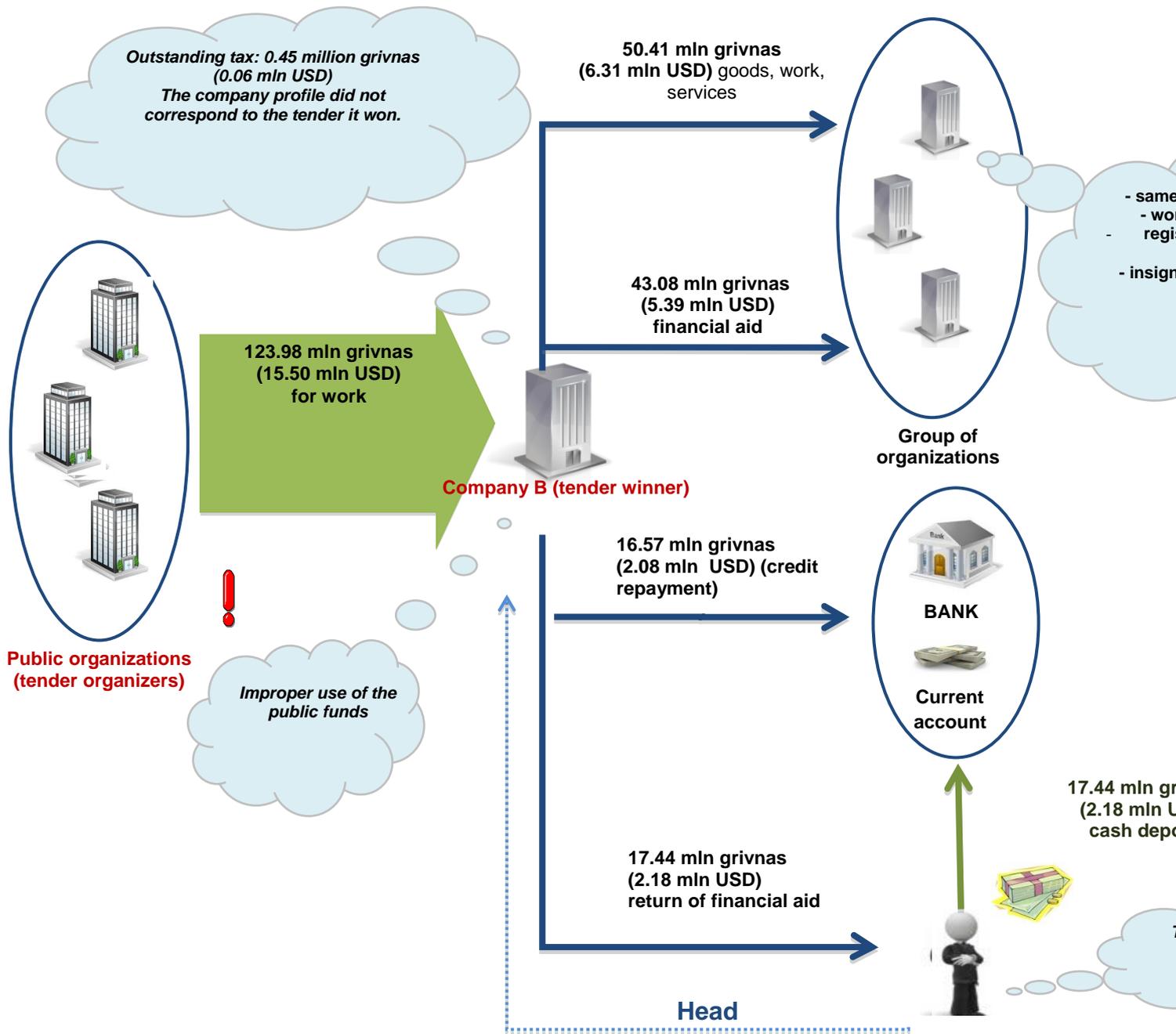
### ***Case 7***

Improper use of the public funds that have been transferred as financial aid to a physical person being the founder of the tender winning company who failed to declare the received income.

Company B (the winner of the tender) were provided by a group of public organizations with the amount of 123.98 million grivnas (15.50 mln USD).

Later the money were transferred to a group of corporate entities as payment for goods, work and services in the amount of 51.41 million grivnas (6.31 mln USD), as financial aid in the amount of 43.08 million grivnas (5.39 mln USD) and as credit repayment in the amount of 16.57 million grivnas (2.07 mln USD).

Also 17.44 million grivnas (2.08 mln USD) including 13.22 million grivnas (1.65 mln USD) received from public organizations were transferred to Person D (a subject of entrepreneurial activity ) being the head of Company B as financial aid.



Person D withdrew the money in cash and deposited them to his own account.

Financial investigation revealed improper use of the public funds as well as failure to declare income by the subject of business activity.

Based on the materials provided by the State Financial Monitoring Service, the Ministry of Incomes and Fees is carrying out an investigation.

The described mechanism included such instruments as pretending to make tender purchases by involving subsidiary organizations, fictitious contracts, financial aid, cashing out and replenishment of personal accounts.

## **From FIU of Turkey**

### ***Case 1***

Introduction: Tax inspection performed by the tax authority revealed that some persons got large amounts as unlawful reimbursement of taxes by the government through the companies the established in the first half of 1990s. The case was transferred to MASAK for investigation of money laundering.

Investigation process: Investigation conducted by MASAK revealed existence of a fictitious export organization that consisted of three persons and committed crimes of getting unlawful replenishment of VAT from the government. For that purpose Person H, one of the members of the above mentioned organization, made fake invoices to export organizations from other cities and convinced them to get unlawful replenishment of VAT and also acted as an agent in the process of commission payments to several companies the fake invoices were received from. After that he deposited the income from those operations to a bank account that has been opened in the name of one of his relatives.

Person Y, another member of the above mentioned organization, opened various bank accounts in his own name and in the name of his relatives and employees in order to conceal the actual sources of unlawful replenishment of VAT that he received from companies owned or operated by him. After that he got the money turned over on those accounts and invested them into several assets that he bought in his own name and in the name of his relatives.

Person Z acted as a chartered accountant in the company that cooperated with the above mentioned organization, submitted fake invoices to export companies and got commission for the services. He used the money to buy real property in the name of his wife.

Conclusion: It was revealed that the members of the above mentioned organization got unlawful replenishment of VAT and by that got illegal funds; they got into possession of the funds by means of several transactions with the bank accounts that belonged to their relatives and employees of the company. Money laundering occurred by purchase of movable an immovable property. The case was immediately transferred for investigation to the public prosecutor.

### ***Case 2***

#### Introduction:

The public prosecutor started investigation on MASAK enquiry.

#### Investigation process:

MASAK started investigation against 66 suspicious persons and 19 suspicious companies. It was revealed that cigarettes were either produced domestically and then exported or produced abroad and then illegally imported through adjacent countries and distributed in the territory of Turkey.

Further investigation revealed a number of transactions and evidences of criminal nature of the suspects' activities and it was proved that the suspects' activities were not limited by customs fraud. The suspects' activities were connected with a larger and more multi-level organization.

It was revealed that the organization laundered the money received from sale of contraband cigarettes by using Hawala system and bank accounts as well as transferred the money to production companies as export income. Thus both the physical persons and the corporate entities involved into illegal activities of the above mentioned organization purchase assets by cash and cashless transactions using the income from contraband.

#### Conclusion:

By a judicial decision, hundreds of real estate items and dozens of vehicles belonging to the persons and companies involved into contraband activities were placed under provisional arrest and a large amount of money on their bank accounts was arrested. There was a reasonable suspicion that the organization was involved into money laundering and the investigation was sped up to expose the whole structure of the criminal organization.

#### **From FIU of Russia**

##### *Case 1*

This case illustrates the typology of complex evasion of taxes and/or other obligatory payments by an import company (Company A).

Company A is a large and well-known trading company. It has a web-site and specialized in selling imported household power generators. To decrease the actual purchase prices, Company A established direct contractual relationships with a foreign power generator manufacturer (foreign company or Company K) but failed to reflect that in the accounting system.

The imported batches of good were paid by Company A not to the foreign company directly but through a channel for sending money abroad. In simplified form, the structure of the channel consisted of two shell companies, a Russian and an offshore one. It worked as follows: the Russian participant of the channel (Company B) got payments from the client (Company A) and transferred the money to the other participant of the channel, offshore company (Company C), for some formal reasons. In its turn, Company C transferred the proceeds to the foreign seller (Company K) chosen by Company A.

There are some significant moments that shall be noted in this connection.

First of all, Company A transferred the money to Company B in the guise of payments for the imported goods (power generators) that it agreed to buy from a foreign manufacturer. At that the power generators were overpriced in the contract with Company B for as much as possible. The overpricing was intended to exclude the income of Company A from the taxable base. Besides the payments to Company

B included VAT (18%). At the same time Company B paid no taxes which meant that the VAT amount was to be operated by Company A.

Second, the above mentioned channel was operated by a criminal group that specialized in provision of shadow financial services and worked with many different companies including Company A. Thereby the management of Company A established certain relationships with the members of that criminal group (placed orders to transfer money abroad and got reports on fulfilment of the placed orders).

To determine efficiency of this typology let us examine an example of payment for and supply from abroad of a certain consignment. Under a fake purchase and sale agreement Company A purchased 100 power generators and made a wire transfer to Company B in the amount equivalent to 1.2 million USD. The real value of a power generator was 8.5 thousand USD and the cost of 100 power generators was 850 thousand USD. The amount of VAT at the rate of 18% would constitute 153 thousand USD. It means that the power generators were overpriced by about 200 thousand USD.

Company B transferred 1.2 million USD to offshore Company C under a loan agreement to its account in a Cyprus bank. Then the 1.2 million USD were transferred to the account of Company K, the manufacturer of the power generators, in Germany. After that Company K makes a shipment to Company A in the amount of 141 power generators!

To minimize customs duties, power generators were imported through another shell company.

After that 100 power generators arrived to the official warehouse of Company A and got reflected in its accounting and the rest 41 power generators were delivered to a shadow warehouse with no indication thereof in the accounting documents of the company.

The non-registered power generators were distributed to regional wholesale buyers (Company E) that Company A had trust relationship with. The regional buyers were provided by Company A with purchase and sale documents prepared in the name of shell Company B. Payment for delivery was made to the account of Company B.

This example demonstrates that profitability of such a complex typology of evasion from taxes and customs duties for Company A may be very high and depends on the possibility to organize a large-scale shadow stock and money rotation.

It shall be noted that the organizations that sell imported goods using the stated scheme have enormous competitive advantages in relation to other companies that do not resort to tax evasion. As a result, very soon bona fide companies have to decide if they would better leave the market or start using illegal tax evasion schemes. Thereby this market segment is quickly criminalizing and the amount of tax proceeds gets significantly depleting.

## Complex scheme of tax evasion in sale of imported goods

Частичная оплата за товар	Partial payment for the goods
Государственная граница	State border
1,2 миллиона...	1.2 mln USD – money transfer under fictitious contracts (overpriced by 20% + VAT 18%)
Оптовые покупатели компания Е	Wholesale buyers, Company E
Компания А, организатор...	COMPANY A, organizer of the scheme
Поставка товара с официального...	Goods delivery from the official and shadow warehouses
41% товара	41% of goods
Прямые контакты КОМПАНИИ А...	Direct contacts of COMPANY A with the foreign seller and the managers of the money transfer channel (fax, Internet, etc.)
Канал вывода денежных...	Channel for money transfer abroad
Фиктивные фирмы «Б»	Fictitious companies B
Компания «С» (оффшор)	Company C (offshore)
1,2 млн \$ США...	1.2 mln USD, payment for the goods
Иностраный продавец...	Foreign seller, Company K
Теневой склад	Shadow warehouse
Фиктивные фирмы «Д»	Fictitious companies D
Поставка товара на сумму...	Goods delivery to the amount of 1.2 mln USD

### Suspicion indicators and signs of such a scheme are the following:

- Simultaneous payments by Company E and Company A to shell Company B for goods delivery,
- Money transfers from Company B to offshore companies,
- Active status of Company A (presence of a web-site, office, warehouses, retail network, tax accounts, etc.),
- Evidences of direct contacts between Company A and the foreign seller of goods, Company K.

FIU of Russia conducted a number of financial investigations against the companies that have been selling imported goods and actively using the stated complex scheme of tax evasion. All the information and materials resulted from the investigation were provided to law enforcement agencies.

### *Case 2*

This case illustrates the typology of complex tax evasion used by a large jewelry company.

A large jewelry company that has its own jewelry production site carries out retail trade in jewelry through its own retail network. Besides it carries out wholesale trade in jewelry with various companies and individual entrepreneurs from other regions.

## Complex scheme of tax evasion used by a jewelry company

Банк	Bank
по договору комиссии (без НДС)	under commission agreement (w/o VAT)
Посредник А	Agent A
Посредник Б	Agent B

Оптовые покупатели	Wholesale buyers
Ювелирная компания	Jewelry company
Теневое золото	Shadow gold
Вывод прибыли и НДС...	Transfer of income and VAT to shell companies

Jewelry items are produced with the use of gold bars that shall be purchased from a commercial bank. The company pays for the gold bars and gets them delivered under fake agreements that involve a number of agents (shell Companies A and B). The first agent, Company A, works under agent agreements in the interests of both the Bank that sells the gold bars and the buyer of the bars. Agent agreements make it possible to avoid payment of VAT when the bank sells the gold bars. It is known that the evaded VAT is evenly spread between the bank and the real buyer of the gold bars.

The second agent, Company B, has another function. Its principal role is to imitate production of jewelry items and semi-finished goods from the gold bars and distribution of the latter. To avoid taxation of the proceeds of those activities they transfer the money to other shell companies.

It shall be noted that availability of shell Company B makes it possible to use not only the gold bars purchased from the bank but also the gold of illegal origin in production of the jewelry items. The gold of illegal origin may be paid for by Company B to other shell companies.

Besides Company B may be used for legalization of contraband jewelry. For example such jewelry items might be produced abroad (in Turkey, United Arab Emirates, etc.) from the gold bars originally bought from the bank and taken abroad for processing.

And finally Company B may be used by the jewelry company concerned to organize shadow stock and money rotation in the process of wholesale trading in jewelry items. In this case the wholesale buyer the jewelry company has trust relationships with would get purchase and sale documents for the consignment of jewelry items (semi-finished goods) in the name of Company B. It means that the goods would be paid for to the account of Company B as well.

Such a complex tax evasion scheme lets the jewelry company to ensure shadow stock and money rotation that may be significantly bigger than its legal stock and money rotation. As a result the jewelry company gets enormous competitive advantages in relation to other jewelry market participants which do not use any illegal schemes of tax evasion. Due to the spread of the described typology the jewelry market is being quickly criminalized.

Suspicion indicators and signs of such a scheme are the following:

- Simultaneous payments from jewelry companies and individual entrepreneurs to Company B for goods delivery,
- Sale of gold bars by the bank through a chain of two agents having obvious signs of fictitiousness,
- Payments from agent companies to other shell companies.

FIU of Russia conducted a number of financial investigations against some important participants of the jewelry market. Information and materials resulted from the investigation were provided to law enforcement agencies for them to investigate charges in contraband and tax evasion.

## **2.8. Conclusions on Section 2**

Comparative analysis of the materials submitted by the participants of this study reveals that, on the one hand, tax crimes are very common and, on the other, FIUs have considerable opportunities for self-initiated detection of the indicators of such crimes. Furthermore, given the significant differences in FIUs' approaches to solving this problem (used information resources, indicators of suspicious transactions and their participants, typologies, specifics of national legislation, inter-agency cooperation schemes), we can talk about a significant potential for improving the effectiveness of FIUs' activities in combating tax crimes and resultant money laundering.

Particular attention should be paid to the automation of the process of detection of shell companies and individual figurehead accounts that are used in the majority of tax evasion schemes.

It seems likely that the tax evasion and avoidance typologies, indicators of suspicious transactions and their participants that may point at the commission of tax crimes, and most notable examples of financial investigations described in the study, as well as the information resources used, will be useful for the EAG FIUs in their efforts to intensify the fight against tax crimes.

That said, the study organizers were unable to gather information about the software tools used to automate the work with transaction indicators, their participants and typologies. This information is crucial for effective experience sharing. It seems appropriate for the future typological studies conducted by the WGTYP to require the collection and compilation of such information.

### **Conclusion**

The study revealed similarities and differences in the legislation of the countries participating in it. Following a review of compliance of the participants' legislation with the FATF Recommendation as regards the classification of tax crimes as predicate offenses to money laundering, only Belarus and Ukraine were found to be partially compliant with it. All countries are in the process of drafting, or have already drafted, the regulations needed to bring their legislation in line with the FATF requirement.

A survey of the countries participating in the study allowed the organizers to compare the sources used by the FIUs of these countries in the investigation of tax crimes, identify common sources and methods of interaction, as well as to determine the role of the FIU in such investigations.

The study revealed that although all countries use similar indicators of suspicious transactions to detect suspicious transactions related to tax evasion, each country uses its own techniques for applying these indicators and obtaining information from the reporting entities.

In order to better combat tax crimes and the laundering of the generated through these crimes proceeds, participating countries are working to develop a comprehensive set of measures in such areas as intrastate engagement between concerned agencies, improving the mechanisms for analysing suspicious transactions, cross-border cooperation and further improvements to the legislative framework.

The study also helped identify the existing positive experience in conducting financial investigations into tax crimes and developing tax evasion typologies, as well as revealing potential areas for future experience sharing.

**Annex 1. Actions of Legal Entities and Individuals Classified as Tax Crimes  
and Liability for Commission of Tax Crimes**

Country	Actions Classified as Tax Crimes (relevant Articles of Criminal Law)	Liability for Tax Crimes	Notes
<b>Belarus</b>	<p>Article 243 – Evasion of Duties and Taxes.</p> <p>Evasion of duties and taxes by concealment and deliberate understatement of the tax base, or by refusal to submit a tax return or knowingly introducing in it false information, leading to losses on a particularly large scale</p>	<p>Fine, deprivation of the right to hold certain posts/job positions or engage in certain activities, or up to six month of detention, or up to three years of restriction of liberty, or imprisonment for the same term.</p> <p>Evasion of duties and taxes on a particularly large scale is punishable by restriction of liberty for up to five years, or imprisonment for a three to seven years with or without confiscation of property and with or without deprivation of the right to hold certain posts/job positions or engage in certain activities</p>	<ul style="list-style-type: none"> <li>- Losses on a large scale – evasion of duties and taxes in amount equal to or exceeding 1000 base units at the day when crime is committed;</li> <li>- Losses on a particularly large scale are equal to or exceed 2,500 base units.</li> </ul> <p>(As of 01.04.2013, one base unit is equal to 100 thousand rubles or 11.6 US dollars)</p>
<b>Lithuania</b>	Article 219 – Failure to Pay Taxes	Community service, fine, restriction of liberty, imprisonment for up to four years / to for two to six years	
	Article 220 – Provision of Inaccurate Data on Income, Profit and other Assets	Fine, restriction of liberty, deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years	
	Article 221 – Failure to File Tax Return, Report or other Document	Community service, fine, detention, imprisonment for up to three years	
	Article 222 – Fraudulent Accounting	Fine, detention, imprisonment for up to four years	
	Article 223 – Negligent Accounting	Deprivation of the right to hold certain posts/job positions or engage in certain activities, restriction of liberty, detention, imprisonment for up to two years	
<b>Tajikistan</b>	<p>Article 292 - Evasion of Taxes and (or) Duties by <u>Legal Entities</u></p> <p>Evasion of taxes and (or) duties by knowingly including false information on income and expenses in accounting records, or by concealing other taxable</p>	<p>Evasion of taxes and (or) duties on a large scale:</p> <ul style="list-style-type: none"> <li>- Fine in amount of 1000 to 1500 minimum wages;</li> <li>- Deprivation of the right to hold certain posts/job positions or engage in certain activities for up to five years;</li> <li>- Detention for three to six months.</li> </ul>	<ul style="list-style-type: none"> <li>- Large scale – amount of evaded taxes (duties) exceeds 5000 minimum wages;</li> <li>- Particularly large scale – amount of evaded taxes (duties) exceeds 10,000</li> </ul>

	assets	Evasion of taxes and (or) duties <u>on a particularly large scale</u> or by a person who has been earlier convicted of tax or customs crimes: - Fine in amount of 1500 to 2000 minimum wages; - Imprisonment for up to three years with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to five years.	minimum wages.
	Article 293 – Evasion of Taxes and (or) Duties by <u>Individuals</u> Evasion of taxes and (or) duties by non-submission of the mandatory tax return, or by knowingly introducing in it false information on income and expenses, leading to non-payment of taxes on a large or particularly large scale	Evasion of taxes and (or) duties <u>on a large scale</u> : - Fine in amount of up to 700 minimum wages; - Corrective labor for up to 2 years. Evasion of taxes (duties) <u>on a particularly large scale</u> r by a person who has been earlier convicted of tax or customs crimes: - Fine in amount of 700 to 1000 minimum wages; - Imprisonment for up to two years.	
<b>Turkey</b>	Article 359 of Tax Procedure Law – Tax Evasion by Defraud (by Using Counterfeit or Misleading Documents)	Term of imprisonment is determined depending on each fraudulent action:	Amount of funds not declared for taxation purposes does not determine the extent of liability, but determines the form of punishment.
	<b>Subparagraph a:</b> - Manipulation of accounting records; - Modification and concealment of accounting books, records or documents; - Issuance or use of false invoices; - Keeping accounting records or making accounting entries in additional books, or keeping additional documents or use of other accounting facilities which leads to reduction of the tax base.	Imprisonment for eighteen months to three years	
	<b>Subparagraph b:</b> - Destruction of accounting records, books or documents; - Issuance or use of false invoices.	Imprisonment for three to five years	
	<b>Subparagraph c:</b>	Imprisonment for two to five years	

	- Printing invoices without approval of the Ministry of Finance, or deliberate use of such false invoices.		
<b>Russia</b>	Article 198 – Evasion of Taxes (Duties) by Individuals Evasion of taxes (duties) by failure to submit a tax return or other mandatory documents, or by knowingly including false information in tax return or other documents	<p><u>On a large scale:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 100,000 to 300,000 rubles or in amount of wages or other income of a convicted person for a period of 1-2 years;</li> <li>- Compulsory labor for up to one year;</li> <li>- Detention for up to six months;</li> <li>- Imprisonment for up to one year.</li> </ul> <p><u>On a particularly large scale:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 200,000 to 500,000 rubles or in amount of wages or other income of a convicted person for period of 18 month to 3 years;</li> <li>- Compulsory labor for up to three years;</li> <li>- Imprisonment for up to three years.</li> </ul> <p><i>An individual who committed this crime for the first time is discharged from criminal liability provided, that he/she has paid in full all arrears, penalties and fines.</i></p>	<p><u>Large scale:</u></p> <ul style="list-style-type: none"> <li>- Amount of taxes (duties) totaling over three consecutive fiscal years exceeds 600,000 rubles, provided that amount of evaded taxes (duties) exceeds 10% of payable taxes (duties);</li> <li>- Amount of evaded taxes (duties) exceeds 1,800,000 rubles.</li> </ul> <p><u>Particularly large scale:</u></p> <ul style="list-style-type: none"> <li>- Amount of taxes (duties) totaling over three consecutive fiscal years exceeds 3,000,000 rubles, provided that amount of evaded taxes (duties) exceeds 20% of payable taxes (duties);</li> <li>- Amount of evaded taxes (duties) exceeds 9,000,000 rubles.</li> </ul>
	Article 199.1 – Defaulting on Obligations of Tax Agent Defaulting, in personal interest, on the obligations of a tax agent related to calculation, deduction and transfer of taxes and (or) duties payable by a taxpayer to the relevant budget.	<p><u>On a large scale:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 100,000 to 300,000 rubles or in amount of wages or other income of a convicted person for a period of 1-2 years;</li> <li>- Compulsory labor for up to two years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years;</li> <li>- Imprisonment for up to six years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul>	
	Article 199 – Evasion of Taxes (Duties) by Entities Evasion of taxes (duties) by failure to submit a tax return or other mandatory	<p><u>On a large scale:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 100,000 to 300,000 rubles or in amount of wages or other income of a convicted person for a period of 1-2 years;</li> </ul>	<p><u>Large scale:</u></p> <ul style="list-style-type: none"> <li>- Amount of taxes (duties) totaling over three consecutive fiscal years exceeds 2,000,000 rubles, provided that</li> </ul>

	documents, or by knowingly including false information in tax return or other documents	<ul style="list-style-type: none"> <li>- Compulsory labor for up to two years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years;</li> <li>- Detention for up to six months;</li> <li>- Imprisonment for up to two years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul> <p><u>On a particularly large scale or by a group of persons upon prior conspiracy:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 200,000 to 500,000 rubles or in amount of wages or other income of a convicted person for a period of 1-3 years;</li> <li>- Compulsory labor for up to five years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years;</li> <li>- Imprisonment for up to six years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul>	<p>amount of evaded taxes (duties) exceeds 10% of payable taxes (duties);</p> <ul style="list-style-type: none"> <li>- Amount of evaded taxes (duties) exceeds 6,000,000 rubles.</li> </ul> <p><u>Particularly large scale:</u></p> <ul style="list-style-type: none"> <li>- Amount of taxes (duties) totaling over three consecutive fiscal years exceeds 10,000,000 rubles, provided that amount of evaded taxes (duties) exceeds 20% of payable taxes (duties);</li> <li>- Amount of evaded taxes (duties) exceeds 30,000,000 rubles.</li> </ul> <p><i>An individual who committed this crime for the first time is discharged from criminal liability provided, that he/she or the entity has paid in full all arrears, penalties and fines.</i></p>
	<p>Article 199.2 – Concealment by Legal Entity or Unincorporated Entrepreneur of Taxable and (or) Chargeable Funds or Assets: Committed by owner or senior manager or executive officer of a legal entity, or by unincorporated entrepreneur <u>on a large scale</u>.</p>	<ul style="list-style-type: none"> <li>- Fine in amount of 200,000 to 500,000 rubles or in amount of wages or other income of a convicted person for period of 18 month to 3 years;</li> <li>- Compulsory labor for up to five years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years;</li> <li>- Imprisonment for up to five years with or without deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul>	
<b>Uzbekistan</b>	Article 184 – Evasion of Taxes or other Mandatory Payments Intentional concealment or	Fine in amount of up to 150 minimum wages, or corrective labor for up to two years, or detention for up to six months.	In case of full payment of taxes or other mandatory payments on intentionally concealed or understated profit (income)

	understatement of profit (income) or other taxable assets and intentional evasion of taxes levied by the government and other mandatory payments committed on a large scale after imposition of administrative penalty (for the same)	Evasion of taxes committed <u>on a large scale or repeatedly</u> is punishable by fine in amount of 150-300 minimum wages, or by corrective labor for two-three years, or by imprisonment for up to three years. Evasion of taxes committed <u>on a particularly large scale</u> is punishable by fine in amount of 300-600 minimum wages, or by imprisonment for three to five years.	the penalty of imprisonment is not applied.
<b>Ukraine</b>	Article 212 – Evasion of Taxes, Duties (Mandatory Payments) Intentional evasion of taxes and duties (the mandatory payments), which are part of the taxation system established by law, by an executive officer of a company, institution or organization irrespective of form of ownership, or by an unincorporated entrepreneur, or by any other person liable to pay such taxes, fees or other compulsory payments, where such actions resulted in non-receipt of significant amounts of funds by budgets or special government funds	<u>Committed on a significant scale:</u> - Fine in amount of 1000 to 2000 tax-free minimum incomes; - Deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years. <u>Committed on a large scale by a group of persons upon prior conspiracy:</u> - Fine in amount of 2000 to 3000 tax-free minimum incomes with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years. <u>Actions covered by paragraphs 1 and 2 committed on a particularly large scale by a persons who has been previously convicted of tax crimes:</u> - Fine in amount of 15,000 to 25,000 tax-free minimum incomes with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years and with confiscation of property.	<u>Significant scale:</u> amounts of evaded taxes (duties) that are equal to or exceed <b>1000</b> tax-free minimum incomes. <u>Large scale:</u> amounts of evaded taxes (duties) that are equal to or exceed <b>3000</b> tax-free minimum incomes. <u>Particularly large scale:</u> amounts of evaded taxes (duties) that are equal to or exceed <b>5000</b> tax-free minimum incomes.  <i>A person is discharged from criminal liability if he/she paid taxes, duties (mandatory payments) and indemnified the State for the damage caused by late payment prior to the institution of criminal proceedings against him/her.</i>
	Article 212.1 – Evasion from payment of a unified contribution for general mandatory state social insurance or also from payment of insurance premiums for general mandatory state pension insurance Intentional evasion from payment by an executive officer of a company,	<u>Committed on a significant scale:</u> - Fine in amount of 500 to 1500 tax-free minimum incomes; - Deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years. <u>Committed on a large scale by a group of persons upon prior conspiracy:</u>	Evasion of payments of insurance contributions <u>on a significant, large and particularly large scale</u> , respectively: Amounts equal to and exceeding: - <b>1000</b> tax-free minimum incomes; - <b>3000</b> tax-free minimum incomes; - <b>5000</b> tax-free minimum incomes.

	<p>institution or organization irrespective of form of ownership, or by an unincorporated entrepreneur, or by any other person liable to make such payments, where such actions resulted in non-receipt of significant amounts of funds by the state mandatory social insurance funds.</p>	<ul style="list-style-type: none"> <li>- Fine in amount of 1500 to 3000 tax-free minimum incomes with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul> <p><u>Actions covered by paragraphs 1 and 2 committed on a particularly large scale by a persons who has been previously convicted of tax crimes:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 10,000 to 25,000 tax-free minimum incomes with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years and with confiscation of property.</li> </ul>	<p><i>A person who committed actions covered by paragraphs 1 and 2 of this Article is discharged from criminal liability if he/she paid insurance contributions and indemnified the State for the damage caused by late payment prior to the institution of criminal proceedings against him/her.</i></p>
	<p>Article 222 – Financial Fraud</p> <p>Provision of knowingly false information to the government agencies, authorities of the Autonomous Republic of Crimea or local government authorities, banks or other creditors in order to obtain tax exempt status, where no elements of criminal offense against property are involved.</p>	<ul style="list-style-type: none"> <li>- Fine in amount of 1000 to 3000 tax-free minimum incomes with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul> <p><u>Same actions committed repeatedly or on a particular large scale:</u></p> <ul style="list-style-type: none"> <li>- Fine in amount of 3000 to 10,000 tax-free minimum incomes with deprivation of the right to hold certain posts/job positions or engage in certain activities for up to three years.</li> </ul>	

## Annex 2. Current Situation with Implementation of the FATF Recommendation Pertaining to Inclusion of Tax Crimes as Predicate Offences to Money Laundering

Country	Are tax crimes included as predicate offences?	When	Notes: Measures undertaken for inclusion of tax crimes as predicate offences
<b>Belarus</b>	Partially (except for self-laundering)	Since 01.01.2001	The coordinated efforts are undertaken jointly with all relevant government authorities to amend Article 235 (Laundering of Tangible Assets Obtained in Criminal Manner) of the Belorussian Criminal Code, including removal of Remark 1 to this Article, as a result of which all tax crimes will be considered as predicate offences to money laundering.
<b>Lithuania</b>	Yes	Since 01.05.2003	All crimes punishable under the Criminal Code of the Republic of Lithuania may be classified as predicate offences.
<b>Tajikistan</b>	Yes		According to the legislation of the Republic of Tajikistan tax crimes are predicate offences to money laundering.
<b>Turkey</b>	Yes	Since 26.06.2009	Law No.5981 dated 26.06.2009 amended Article 282 “Laundering of Funds Obtained in Criminal Manner” of the Turkish Penal Code by introducing a new concept of a “crime punishable by at least 6 months of imprisonment”. As a result of this amendment tax crimes are classified as predicate offences to money laundering.
<b>Russia</b>	Yes	Since 28.06.2013	Exemptions provided for some Articles of the Russian Criminal Code were deleted from the definition of the concept of “legalization (laundering of criminal proceeds)” (Federal Law No.134-FZ dated 28.06.2013).
<b>Uzbekistan</b>	Yes		Pursuant to Article 243 of the Criminal Code of Uzbekistan tax crimes are predicate offences to money laundering/
<b>Ukraine</b>	Partially Article 212 and 212.1 – No; Article 222 par. 2 - Yes		The tax crimes punishable under Articles 212 and 212 <sup>1</sup> of the Ukrainian Criminal Code are not predicate offences, since they are covered by the exemptions set forth in paragraph 2 of clause 1 of Article 1 of the Ukrainian Law on Combating Money Laundering and Terrorism Financing (hereinafter the Law). The tax crime covered by clause 2 of Article 222 is the predicate offence, since it is punishable by imposition of the fine in amount of over three tax-free minimum incomes which is in line with the requirements set forth in paragraph 2 of clause 1 of Article 1 of the Law. Being currently drafted is the law that will classify tax crimes as the socially dangerous actions that are predicate offences to money laundering.

### Annex 3. Breakdown of 2012 Tax Revenues by Sources

Country	Sources of Government Revenues	Amount (mln. units of national currency)	Percentage of Budget Revenues (%)
Belarus	<b>Total Budget Revenues in 2012 (mln. rubles)</b>	<b>157,600,328.2</b>	<b>100.0</b>
	<i>of which:</i>		
	<b>Tax Revenues</b>	<b>137,994,760.5</b>	<b>87.6</b>
	<i>including:</i>		
	<b>Income and Profit Taxes</b>	<b>39,804,973.6</b>	<b>25.3</b>
	Personal income tax	19,318,505.6	12.3
	Profit tax	19,534,585.3	12.4
	Income tax	951,882.7	0.6
	<b>Taxes on Property</b>	<b>5,187,349.6</b>	<b>3.3</b>
	Land tax	1,820,103.4	1.2
	Immovable property tax (also applicable to property under construction)	3,367,246.2	2.1
	<b>Goods and Services Taxes</b>	<b>63,093,119.6</b>	<b>40.0</b>
	Value added tax (VAT)	45,456,895.8	28.8
	Tax payable under simplified taxation system	2,171,692.3	1.4
	Unified tax payable by unincorporated entrepreneurs and individuals	603,826.6	0.4
	Excise tax (duty)	11,190,676.2	7.1
	Gambling tax	237,953.7	0.2
	Ecological tax (including mining tax (tax on extraction of natural resources))	2,561,996.4	1.6
	<b>Foreign Economic Activity Tax Revenues</b> (Customs duties on imported and exported goods, levies, offshore duty, other tax revenues from foreign economic activities)	<b>25,474,917.9</b>	<b>16.2</b>
	<b>Other Taxes, Levies (Duties) and Mandatory Payments</b>	<b>4,434,399.8</b>	<b>2.8</b>
	Contribution to innovation funds	3,088,501.1	2.0
State duty	680,304.6	0.4	
Other taxes, duties (levies) and mandatory payments	641,606.4	0.4	
<b>Non-Tax Revenues</b>	<b>19,605,567.7</b>	<b>12.4</b>	
<i>including:</i>			
Revenues received as payments for the use of government-owned property	11,126,278.1	7.1	
Revenues from business and other profit generating activities	3,242,387.7	2.0	
Other non-tax revenues	4,578,431.5	2.9	

Country	Sources of Government Revenues	Amount (mln. units of national currency)	Percentage of Budget Revenues (%)
Ukraine	<b>National Taxes and Levies under the Ukrainian Tax Code:</b>		
	Corporate income tax	-	-
	Personal income tax	-	-
	Value added tax	-	-
	Excise tax (duty)	-	-
	Duties for initial registration of a vehicle	-	-
	Ecological tax	-	-
	Rental fee for transportation of oil and oil products through trunk pipelines and transit pipeline transportation of natural gas and ammonia across the territory of Ukraine	-	-
	Mining (extraction) tax	-	-
	Land tax	-	-
	Charge for the use of radio frequency resource of Ukraine (frequency license fee)	-	-
	Charge for special use of water	-	-
	Charge for special use of forestry resources	-	-
	Fixed agricultural tax	-	-
	Charge for development of perennial plantations (wine growing, gardening, hop production)	-	-
	Surcharge to existing electricity and heat tariffs, except for electricity generated by qualified cogeneration plants	-	-
	Surcharge to existing natural gas tariff payable by all gas consumers regardless of their ownership	-	-
	<b>Local Taxes and Levies under the Ukrainian Tax Code:</b> (Established according to the list and at the rates specified in the Ukrainian Tax Code by resolutions of local authorities (authorities of villages, towns and cities) acting within the scope of powers vested in them)		
	Immovable property tax		
	Unified tax		
	Charge for conducting of certain types of business activities		
	Charge for car parking		
Tourist charge			

Country	Sources of Government Revenues	Amount (mln. units of national currency)	Percentage of Budget Revenues (%)
<b>Uzbekistan</b>	The following <b>taxes</b> are levied in the Republic of Uzbekistan:		
	Corporate income tax	-	-
	Personal income tax	-	-
	Value added tax	-	-
	Excise tax (duty)	-	-
	Mining (extraction) taxes and special charges	-	-
	Water resource tax	-	-
	Property tax	-	-
	Land tax	-	-
	Improvement and social infrastructure development tax	-	-
	Tax on gasoline, diesel fuel and gas for transport vehicles	-	-
	The following <b>mandatory payments</b> are charged in the Republic of Uzbekistan:		
	Mandatory payments to social funds:	-	-
	- Unified social payment	-	-
	- Insurance contributions by individuals to off-budget Pension Fund	-	-
	- Mandatory deductions to off-budget Pension Fund	-	-
	Mandatory payments to the National Road Fund:	-	-
	- Mandatory deductions to the National Road Fund	-	-
	- Chargers payable to the National Road Fund	-	-
	State duty	-	-
Customs duties			
Charge for retail sale of certain goods and for provision of certain services	-	-	

