FIAU

Tax-Related ML – The Analytical Process and Case-Studies

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Agenda

- **The Analytical Process**
- **Types of Tax-related ML Analysis**
- **Operational procedures**
- **Case studies – Reasonable suspicion of MLFT**

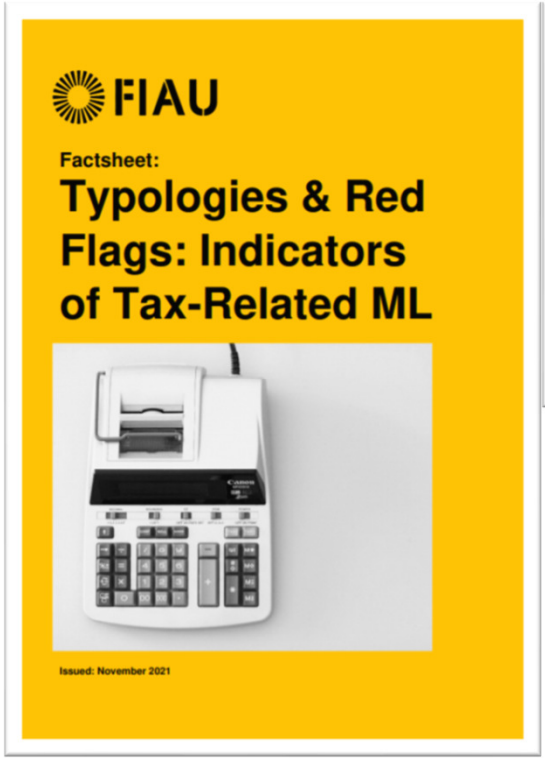
The Analytical Process

Analysis Section

The Analytical Process

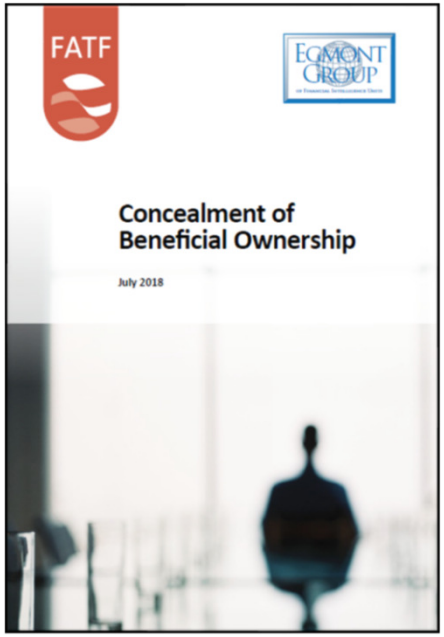
Receipt of STRs
[Level: Suspicion]

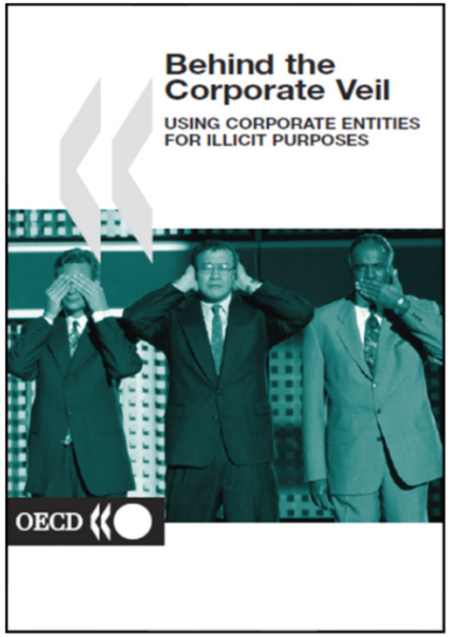
Publications: Tax-Related Red Flags

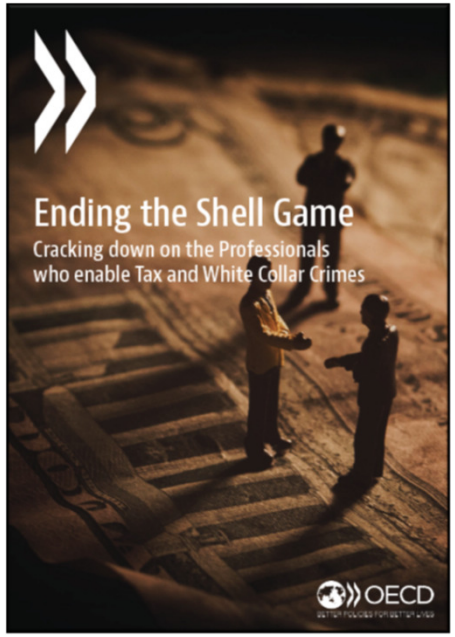


- Customer's Identification Information
- Entity Structure & Governance
- Unusual or Suspicious Transactions
- Customer Interaction & Behaviour
- Source of Wealth & Source of Funds

Publications: Abuse of Corporate Vehicles







The Analytical Process

Receipt of STRs
[Level: Suspicion]

→

Processing & prioritization

The Analytical Process - continued

Processing & prioritization

- Insufficient elements of MLFT
- Sent to other authorities
- Sent to foreign FIUs
- Operations Case

The Analytical Process - continued

Operations

- No further action
- Sent to other authorities
- Sent to foreign FIUs
- Sent to Police **[Reasonable Suspicion]**

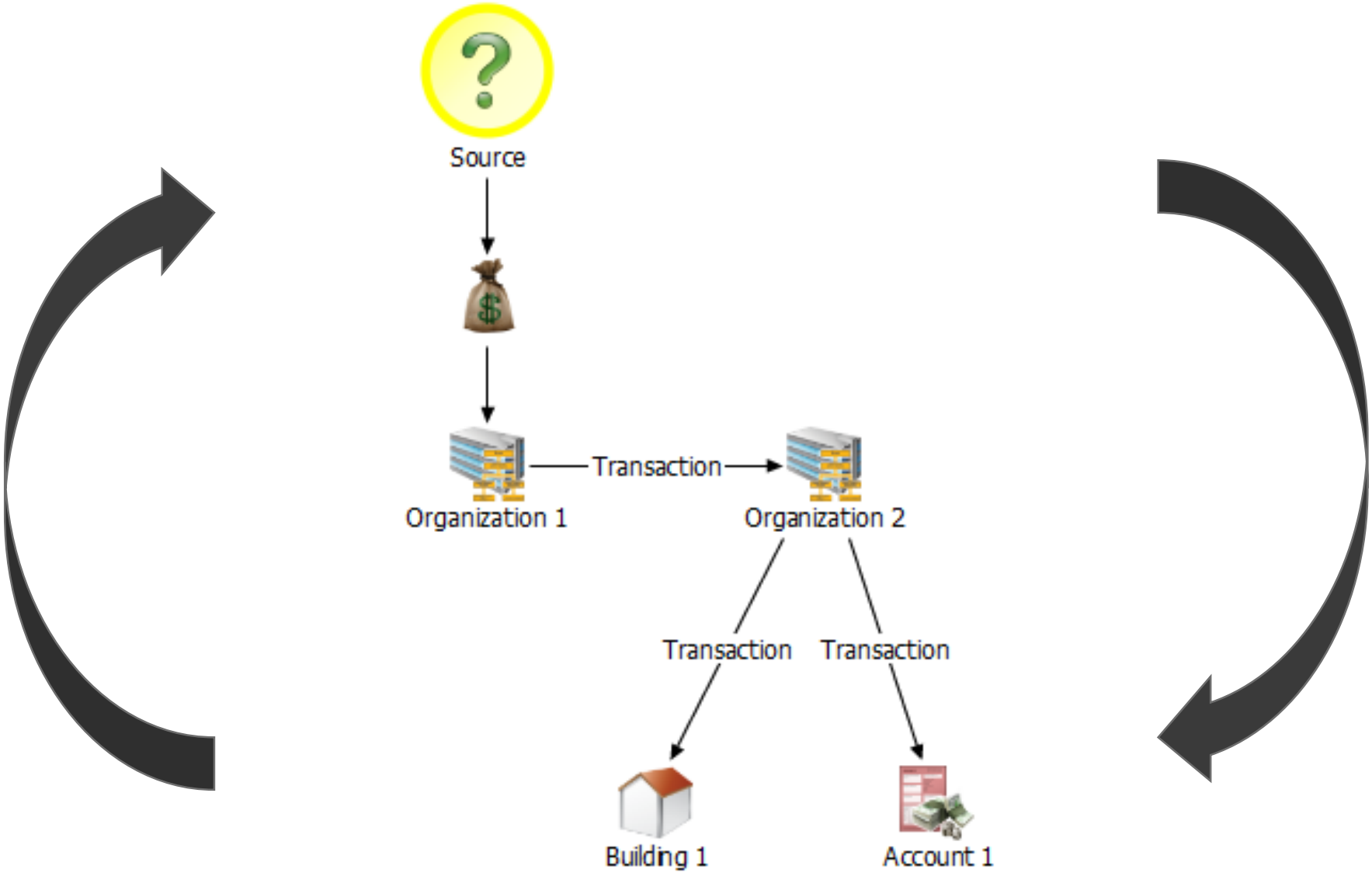
Types of Tax-related ML analysis*

*Not a comprehensive list

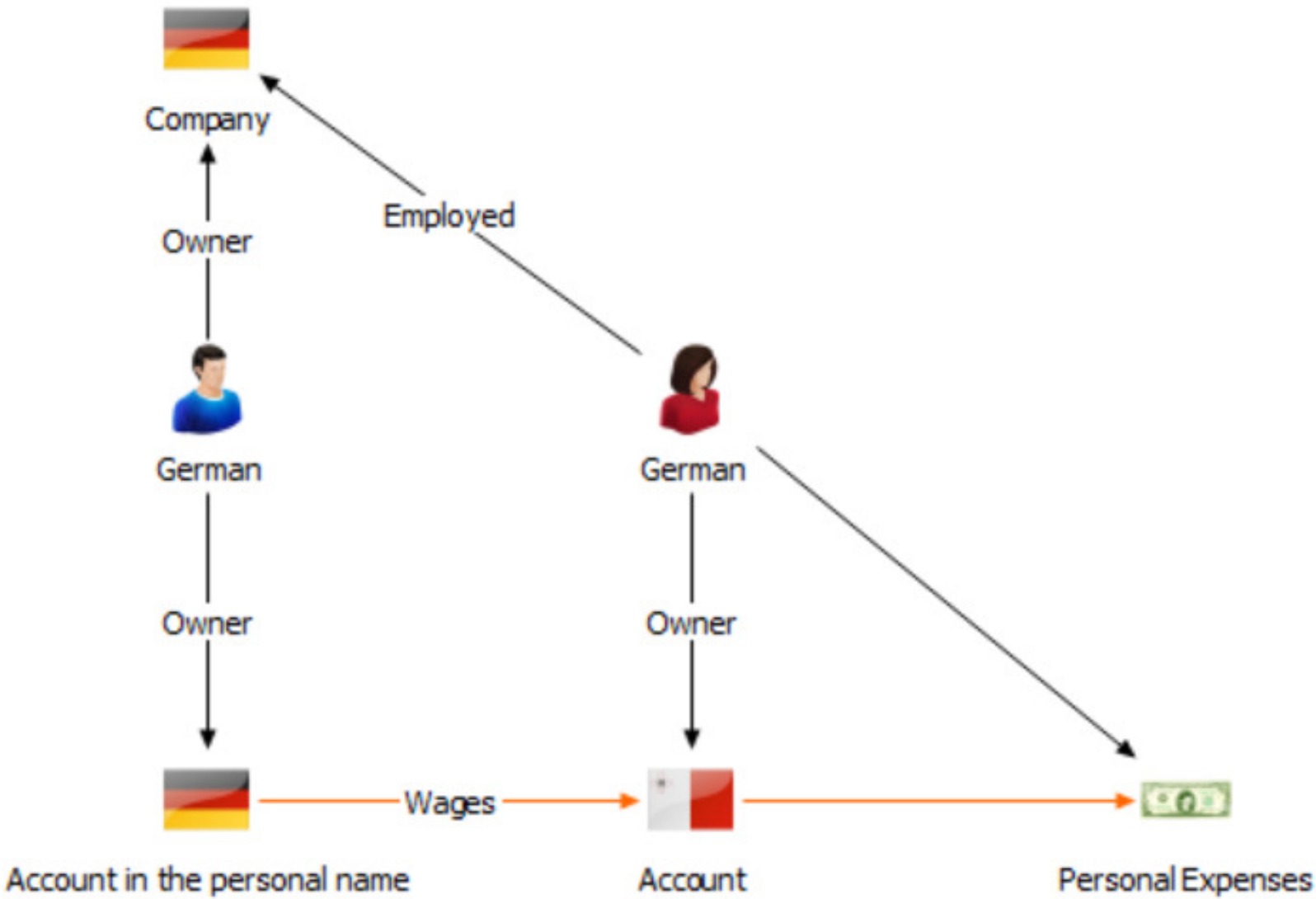
Serious Local Tax Evasion

- High level of activity
- Minimal tax declarations
- Significant Unexplained Wealth
- Other predicate offences
- An effort to conceal income from Maltese authorities
  - Complex structures / foreign accounts
- Cash Intensive business

Foreign Proceeds of Tax Evasion – Money Trail

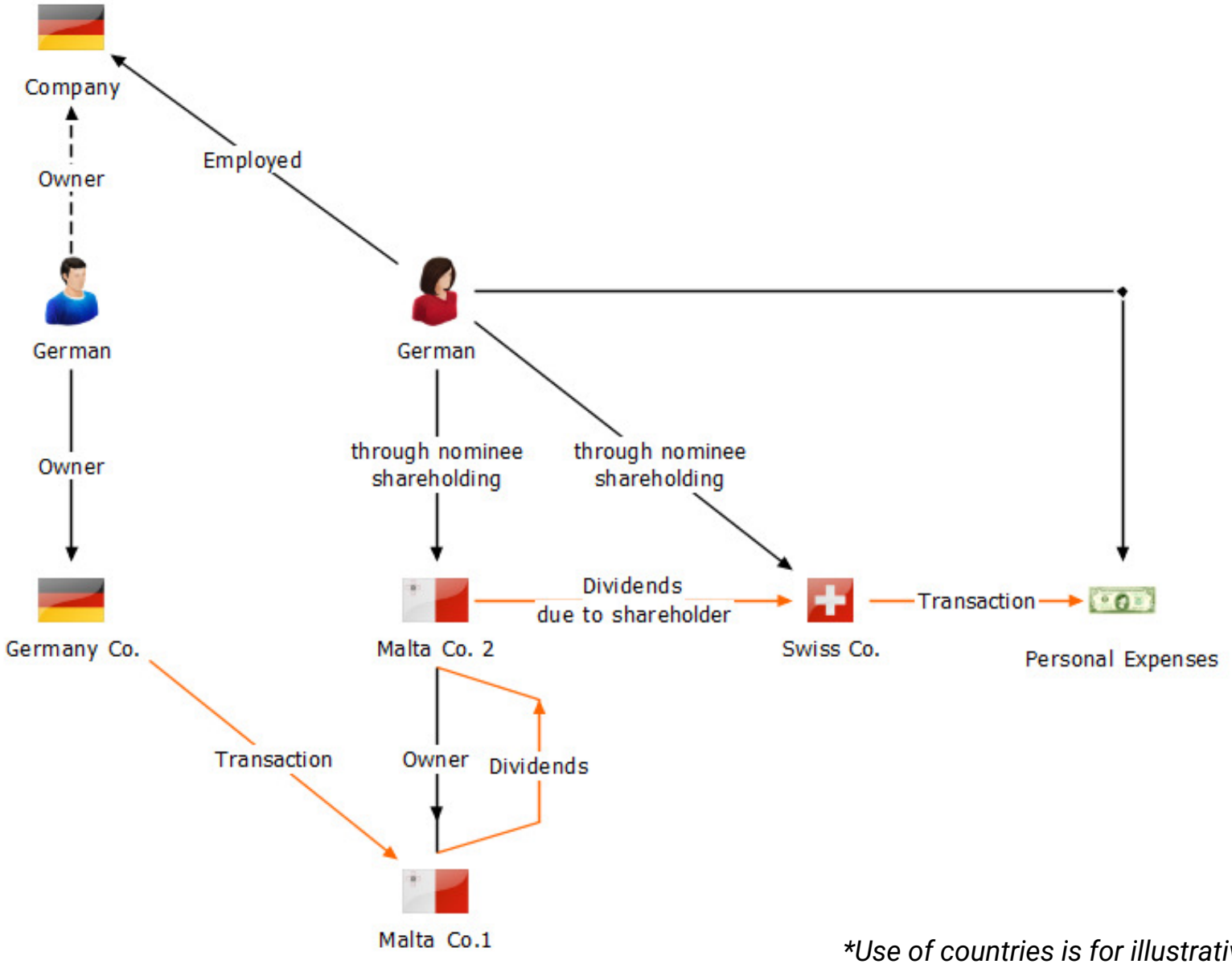


Concealment of Income (Simple)



**Use of countries is for illustrative purposes only*

Concealment of Income (Corporate Structures)



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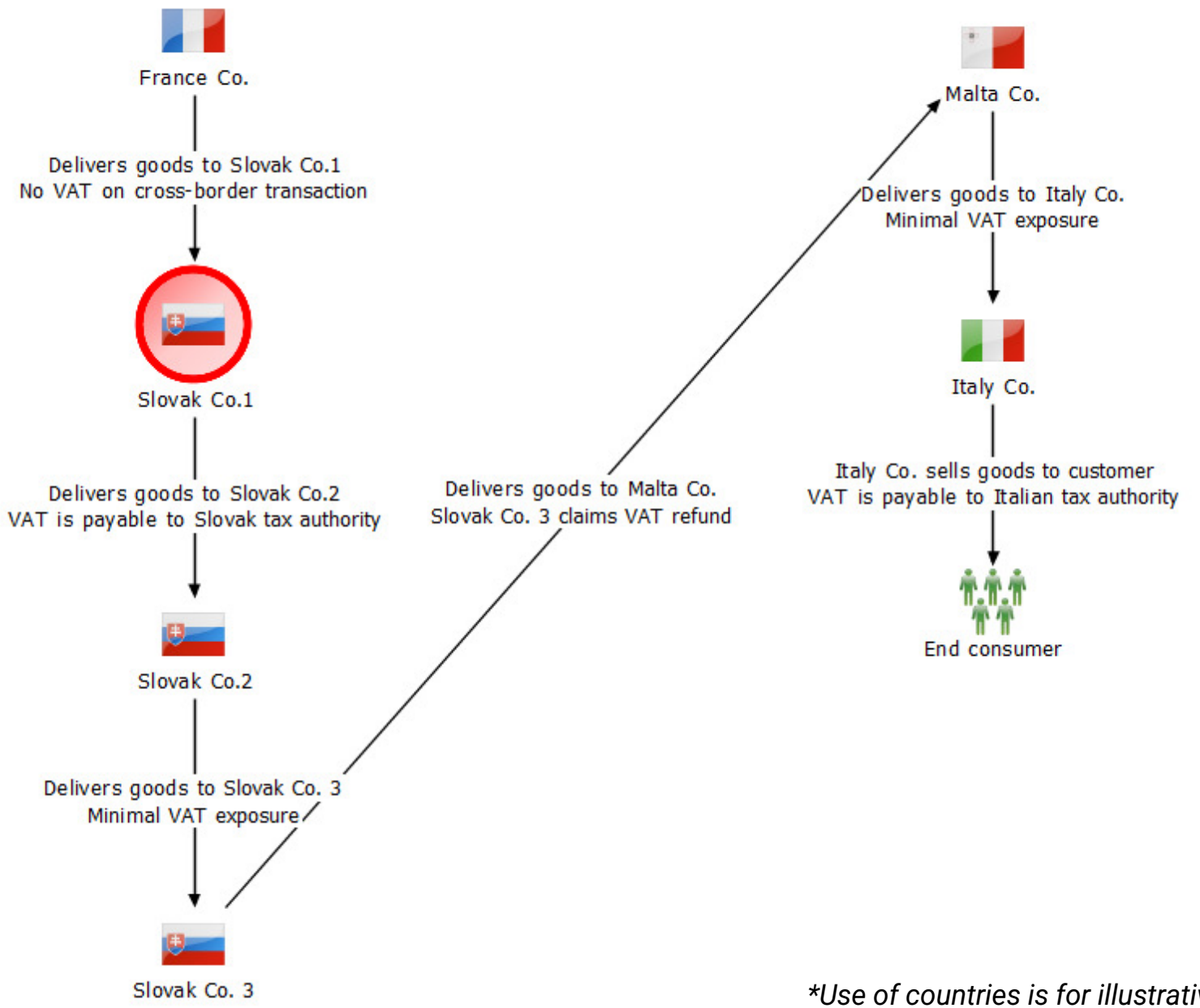
Missing Trader Intra-Community Fraud



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Operational procedures

Searches

- FIAU database
- Central Bank Account Register
- Malta Business Registry
- Databases held by other authorities
- Web searches
- Foreign business registers
- Foreign FIU databases

Requests for Information

- Domestic Authorities
- Foreign Counterparts
- Subject Persons

Requests for Information – Auditors / Accountants

Considerations:

- goAML
  Anti-Money Laundering System
- Strictly confidential
- 5 working days
- Detailed explanation
- Further queries

Analysis - Other

→ Visual representations of info and money trail

→ Timelines

Case studies – reasonable suspicion of MLFT

Case Study 1 – Red Flags: Serious local tax evasion

Customer Interaction & Behaviour

- Uncooperative client

Entity Structure & Governance

- Commingling of funds
- A non-commensurate high revenue within a newly-formed company
- Cash-intensive business

Source of Funds & Source of Wealth

- Indications that funds have not been properly declared to the tax authorities
- Frequent amounts of deposits from unexplained sources

Case Study 2 – Red Flags: Money Trail

Unusual or Suspicious Transactions

- The use of shareholders' loans to finance corporate activities
- Circular transactions

Customer Interaction & Behaviour

- Adverse media
- A customer requests to use a client's account without a reasonable or commercial justification

Source of Funds & Source of Wealth

- Information and/or documents provided on the source of wealth or source of funds seem odd

Case Study 3 – Red Flags: Concealment of income Red Flags

Unusual or Suspicious Transactions

- Transactions where assets are settled on trust, in circumstances where there is no clear legal and rational choice to account for such transfers, and/or the assets are transferred to non-cooperative jurisdictions
- The use of shareholders' loans to finance corporate activities, particularly given the subsequent waiver
- The establishment of companies in jurisdictions where the company does not actually have any presence or conduct any activities

Customer Interaction & Behaviour

- The subject person realises that the customer did not file other prescribed documents correctly and refuses to correct defaults
- The customer refuses communication with the subject person
- Uncooperative client
- A discrepancy between the customer's organisation structure and other documentation/information

Entity Structure & Governance

- Inexplicably intricate structures spanning over high-risk jurisdictions
- Structures may be created with the intention of hiding information, such as beneficial ownership, or to make it problematic to obtain certain information
- Structures for which there is no economic, commercial or logical explanation
- The absence of a local footprint
- A request for the use of bearer shares
- The use of fiduciary shareholders within the entity structure with no clear and legitimate purpose or justification
- Missing records

Case Study 4 – Red Flags: Concealment of income Red Flags

Customer's Identification Information

- Individual's business would not be located in the same jurisdiction as their residential jurisdiction and having no reasonable commercial justification for such

Customer Interaction & Behaviour

- The subject person has reason to suspect or believe that the customer is not complying with tax reporting obligations in other countries
- Adverse media, such as allegations of tax fraud or convictions on tax crimes, related to tax on the customer

Unusual or Suspicious Transactions

- Use of means, other than dividends for profits, generated by these entities to flow to their local owners
- Transactions involving services such as consultancy, marketing or research when the service provider only has inexplicably one or very few customers notwithstanding that it has a particularly high turnover
- The establishment of companies in jurisdictions where the company does not actually have any presence or conduct any activities

Entity Structure & Governance

- Inexplicably intricate structures spanning over high-risk jurisdictions
- Structures may be created with the intention of hiding information or to make it problematic to obtain certain information
- The absence of a local footprint
- The use of fiduciary shareholders within the entity structure with no clear and legitimate purpose or justification

Thank you.