



Guidance on Tax Evasion Indicators

2021

Addressed to the parties referred to in Articles 4 and 5 of the Anti-Money Laundering and Terrorist Financing Law No. 44/2015.

Introduction

Tax evasion threatens countries' interests and deprives governments of revenues needed for sustainable development. It has a significant impact on public confidence and economic growth, creating inequality in society and distorting competition in markets and among businesses.

Tax evasion comes in many forms and can involve ordinary people, it can be simple to detect, or can be concealed through complex legal structures and financial transactions facilitated by third parties or professional enablers. Tax fraud schemes can include illegal tax recovery (fraudulent VAT refund).

Tax Evasion Indicators

The following set of indicators is not exhaustive and should not be considered in isolation. They can lead to suspicion of money laundering associated with or derived from tax evasion. They can be used separately or in combination with other indicators, or other existing information. Reporting entities are required, if there are reasonable grounds to suspect that a transaction or an attempted transaction is related to tax evasion, to file a Suspicious Transaction Report to the SIC in accordance with the provisions of AML/CFT Law No. 44/2015.

- 1- Customer or connected parties associated with negative tax-related news (allegations of tax fraud or convictions of tax crime(s)).
- 2- Customer fails to disclose dual citizenship or tax domicile (doesn't accept to sign FATCA or CRS form).
- 3- Customer activities (sales and purchases) are not backed by invoices or proper documentation, or fail to account for VAT, or there are doubts about the legitimacy of such documentation.
- 4- Customer cannot confirm that the source of funds/wealth has been properly declared to a tax authority.
- 5- Customer business and place of residency are in different countries without a legitimate commercial purpose or justification.
- 6- Customer shows greater than normal interest in tax reporting topics or enquiries about tax disclosure requirements other than for legitimate tax planning purpose.
- 7- Customer demands exceptionally high and atypical levels of confidentiality.
- 8- Customer requests to close the account when requested to provide additional information on tax-related matters.
- 9- Customer expressing interest to conceal beneficial ownership of income and assets from tax authorities.
- 10- Customer closes and starts new businesses repeatedly.

- 11- Customer structure is uncommon or overly complex without a clear and legitimate commercial purpose or some reasonable justification.
- 12- Customer justifies overly complex structure being for tax optimization purposes.
- 13- Customer account funded by transfers from high tax jurisdictions.
- 14- Customer conducts frequent and substantial wire transfers from/to high tax jurisdiction without any legitimate business-related reason or legitimate commercial purpose.
- 15- Customer under or overvalues goods and/or services where the declared value on the invoices for these goods and/or services does not reflect the market value.
- 16- Customer conducts circular or round-tripping transactions where funds are reinvested into the original jurisdiction after being transferred to a foreign entity.
- 17- Customer commingles personal and business accounts (personal accounts are used to conduct business transactions).
- 18- Customer conducts transactions for which there is no economic, commercial or logical explanation.
- 19- Customer having major discrepancies when comparing taxes paid in the past to recent payments despite the growth of the business and commercial transactions.
- 20- Customer involved in business activities and transactions, but does not report any revenue.
- 21- Customer makes payments to supplier's offshore bank account without valid reason, raising suspicion that the transfer might be for tax evasion purposes.
- 22- Customer activities are mainly financed through loans from shareholders intended to place high interest burden (not commensurate with the customer's financial resources and profile).
- 23- Customer financial statements contradict those presented to tax authorities, and are in violation of BDL intermediate circular 521 requirements.

Selection of Typologies related to Tax Evasion

First Case

Report (STR):

The AML/CFT compliance officer at a local bank, while reviewing cash transactions deposited in a customer's account requested supporting documents from the said customer. The officer was provided with a real estate sales contract, from which he noticed that the deposited amount exceeded the figure mentioned in the sales contract. An STR was consequently filed with the SIC, for possible tax evasion.

Analysis and Investigation:

The SIC initiated its investigation by analyzing the customer's account activity and also circulated the names of both parties involved in the real estate transaction to all banks, financial institutions and money remittance companies operating in Lebanon in an attempt to identify if similar activity existed.

Subsequent Measures:

The SIC decided to freeze and lift banking secrecy off related bank accounts and forward the findings to the General Prosecutor, who in turn decided to prosecute on tax evasion charges.

Second Case

Report (ROA):

The SIC received a request of assistance from the Lebanese General Prosecutor concerning ongoing investigations in to acts of tax evasion committed by a Lebanese national that resulted in significant illicit proceeds.

Analysis and Investigation:

The SIC circulated the name of the suspect to banks, financial institutions and money remittance companies operating in Lebanon. Findings revealed the existence of bank accounts at two banks. The analysis performed on the accounts revealed cash deposits that were later withdrawn with checks for the purchase of real estate. The SIC also requested additional information from the real estate register, commercial register and vehicle register.

Further analysis and a search of the SIC database revealed that the suspect is related to three other suspects who were subject to previous case investigations relating to tax evasion. The three suspects were accused of theft and embezzlement of public funds in addition to forging identification documents to establish shell companies. They had opened accounts in the name of the shell companies and used them to receive illegitimate remittances from the ministry of finance in the form of TVA refunds.

Subsequent Measures:

The SIC froze the identified accounts, requested all money remittance companies not to perform any transaction for the suspect, and placed an encumbrance on the identified properties. Findings were forwarded to the General Prosecutor for further investigation.

Third Case

Report (ROA):

The SIC received a request of assistance from the Lebanese General Prosecutor concerning a Mutual Legal Assistance (MLA) case originating from a foreign judicial authority. The MLA was related to acts of tax evasion and fraudulent bankruptcy committed by a suspect, as well as accusations against him for using his Lebanese registered company to conceal large amounts of money. Accusations also covered illegal acts involving real estate that affected a company's operations abroad and caused losses in salaries and social security contributions.

Analysis & Investigation:

The SIC initiated its investigation by circulating the names of the suspect and his company to all banks and financial institutions operating in Lebanon in an effort to identify accounts and transactions. The SIC identified one bank account for the suspect's company, and obtained the account statements as well as available CDD information. The analysis performed identified transfers received from abroad totaling 4 Million Euros that were later transferred to a relative and abroad.

Subsequent Measures:

Banking secrecy was lifted and SIC findings were forwarded to the Lebanese General Prosecutor to take appropriate measures including providing information to the foreign judicial authority.

Fourth Case

Report (ROA):

The SIC received a request of assistance from the Lebanese General Prosecutor concerning a Mutual Legal Assistance (MLA) that he received from a foreign judicial authority. The MLA was related to acts of tax evasion committed by a suspect who owned shares in a company he managed. The suspect made significant profits after the company became publicly traded, did not report or pay taxes due and had transferred funds to a bank account in Lebanon.

Analysis and Investigation:

The SIC initiated its investigation by obtaining all related documents, including bank statements as well as available CDD information from the local bank that received the transferred funds from abroad. Furthermore, the SIC circulated the name of the suspect and companies mentioned in the MLA to all banks and financial institutions operating in Lebanon in an effort to identify accounts and transactions. Two additional bank accounts were identified and the analysis performed showed the same pattern of incoming transfers in millions of dollars that were later transferred abroad including for the purchase of real estate.

Subsequent Measures:

Banking secrecy was lifted and SIC findings were forwarded to the Lebanese General Prosecutor to take appropriate measures including providing information to the foreign judicial authority.