



Trade based Money laundering using Fast moving consumer goods or excise related goods in a labor intensive sector

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LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Administration de l'enregistrement,
des domaines et de la TVA



- The fight against VAT fraud has always been among the major concerns for Tax authorities
- Legislative measures and better cooperation have diminished but not eradicated the classic MTIC fraud
- Fraudsters try to delay detection as much as possible, therefore they modify fraud schemes and avoid early detection by:
 - ✓ Moving to less monitored and/or regulated markets, e.g. services, environmental
 - ✓ Acting on a global scale by involving countries outside EU
 - ✓ Maximizing profit by a multi-tax fraud approach
 - ✓ Taking advantage of loopholes in legislation, taxation, procedures and cooperation, e.g. CP42.00, Excise/VAT fraud, Margin scheme abuse, E-Commerce, Energy market



Trend

Trade based Money laundering (TBML) using Fast Moving Consumer Goods (FMCG) & Excise related goods (Tobacco, Alcohol...)

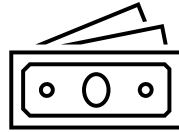
Origin of the fraud



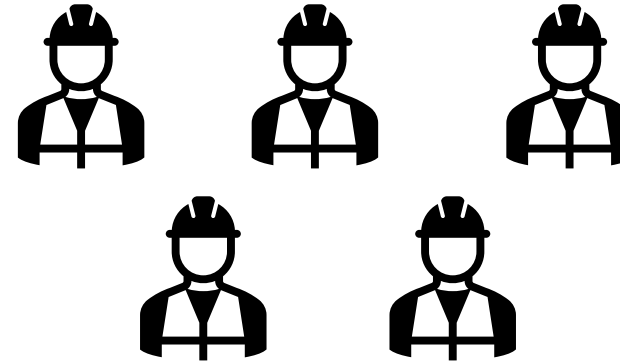
Boss of a
construction
company or
any other
labor-
intensive
sector



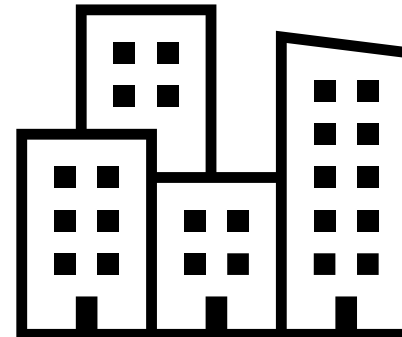
Needs
cash for



Clandestine (undeclared)
workers



Who are working at a large real estate project



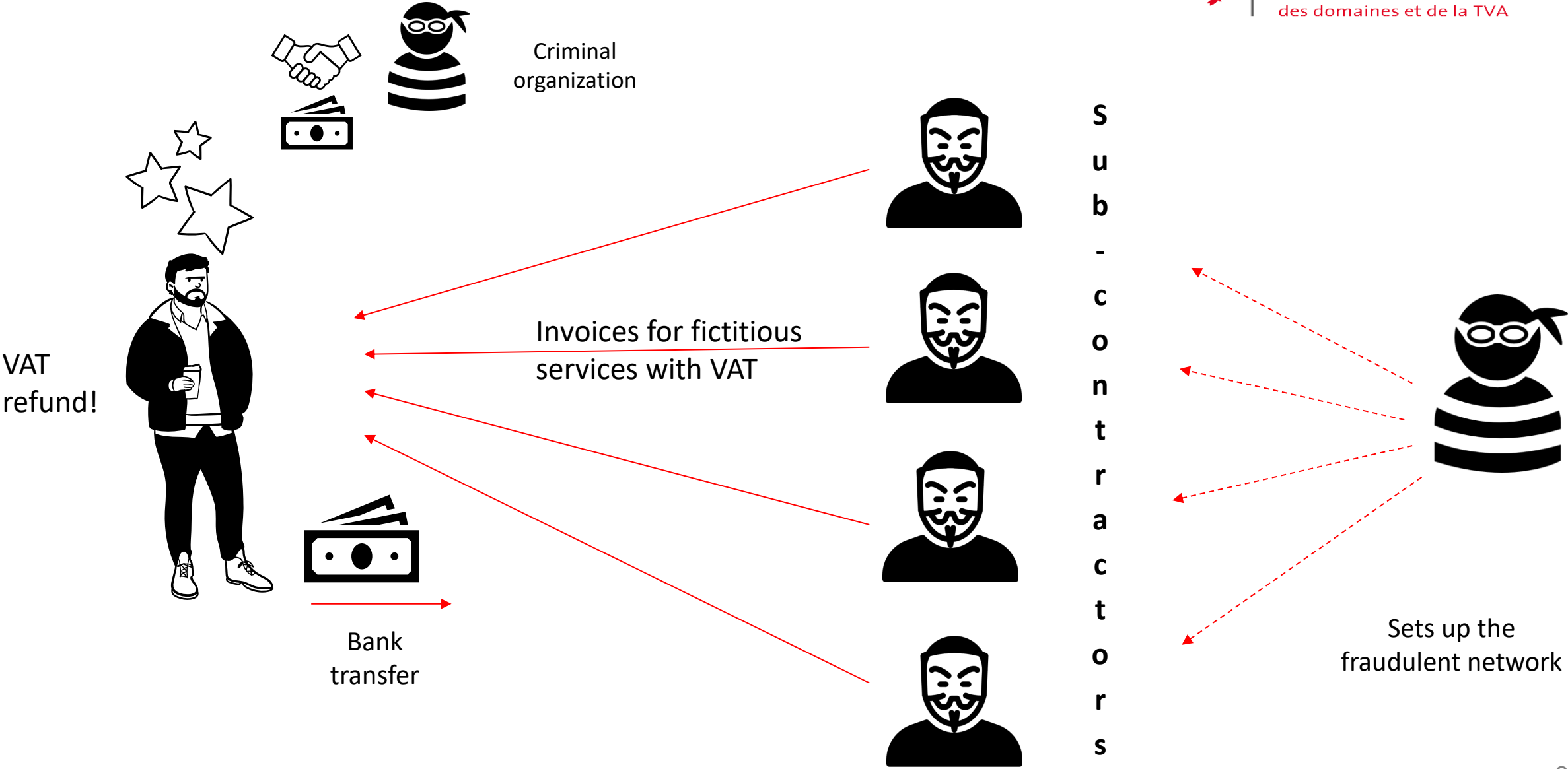


- The construction company owner needs undeclared cash to pay off its clandestine workers
- In case of an on-site inspection, undeclared workers might be detected by authorities

Potential consequences:

- ✓ The building company and real estate owner risk prosecution and fines
- ✓ Risk of delay or stop of construction works
- ✓ Considerable risk reduction of profit or even loss

How to commit a multi-tax fraud

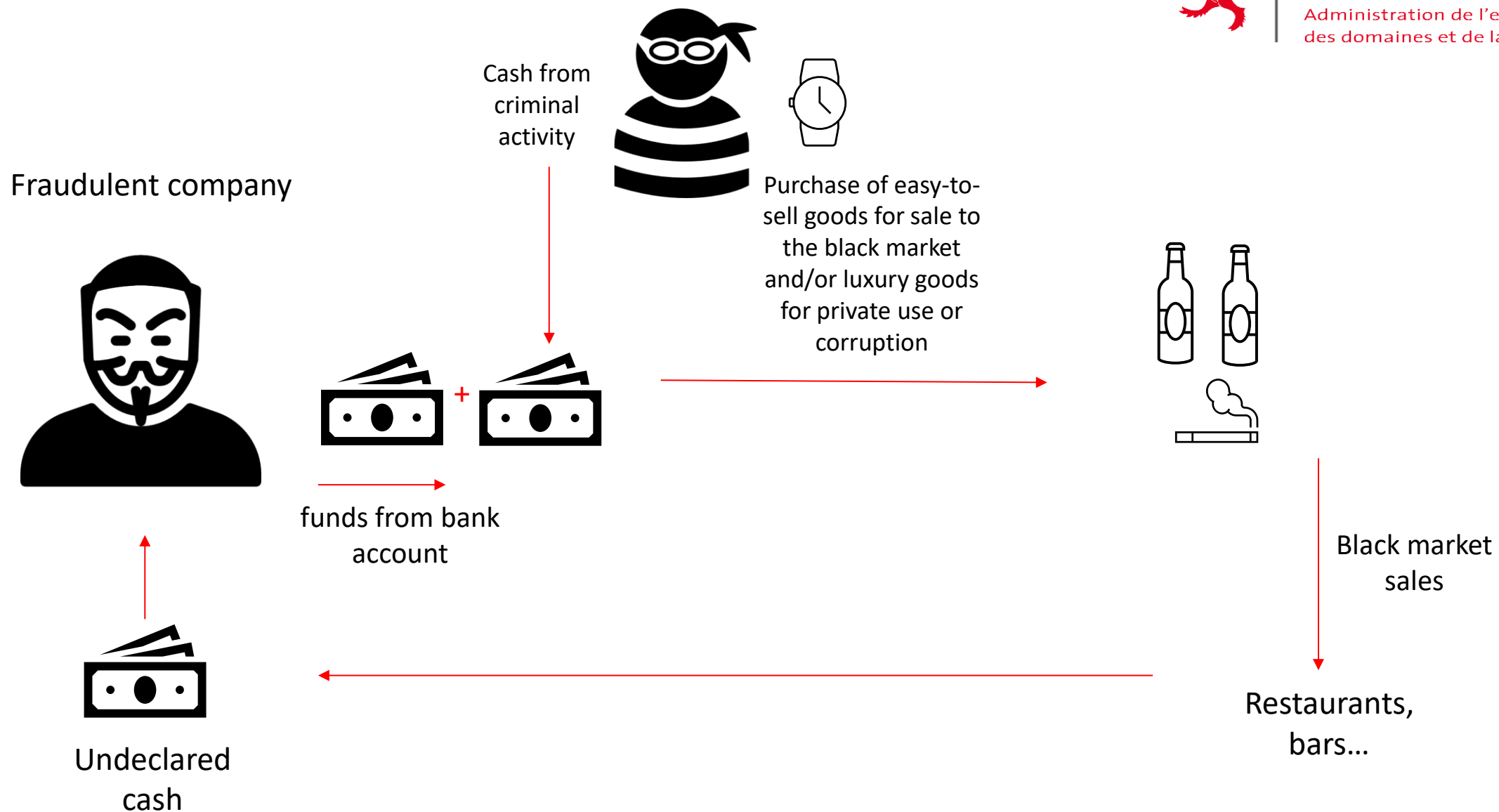


Step 1



- Setting up bogus sub-contractor companies with strawman managers.
- Possible involvement of criminal organizations who offer to set up the fraudulent structure and to organize the strawmen, e.g. immigrants or persons in a critical situation in exchange for money laundering of criminal funds and/or shares of the company/real estate project and/or profits.
- The sub-contractors have a Missing Trader profile, are one-person structures and only hold a bank account.
- They issue numerous invoices for fictitiously rendered services with domestic VAT.
- Some of the sub-contractors can be located outside the domestic market. In this case, the structures are used to transfer the money out of the country and out of control of AML-authorities to delay detection.
- The main actor, in this case the construction company, can deduct the VAT and/or offset the payable VAT. It generates then more (hidden) profit, which will be distributed among involved actors, often again through fake invoicing, e.g. services for consulting or market studies.
- The amounts are paid via bank transfer to the accounts of the bogus companies. The main actor(s) simulate(s) compliance towards Tax authorities.
- In case of on-site inspections, the sub-contractors are held responsible for any undeclared workers and the main company claims innocence and compliance.
- The detected sub-contractors vanish and will not pay any taxes or duties.

Step 2





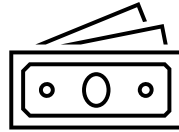
- As the sub-contractor cannot keep monetary funds on its bank account due to the elevated risk of detection and following seizure or freezing of funds, the money is either directly withdrawn in cash or transferred abroad and/or reimbursed in cash to the initial payer, in this case the construction company

Or

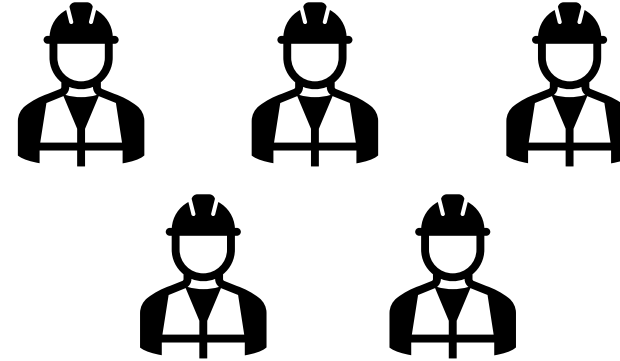
- The money is used to purchase Fast moving consumer goods or excise related products which can be easily sold against cash on the black market to restaurants, fast food, grocery stores, discotheques and bars or to private consumers.



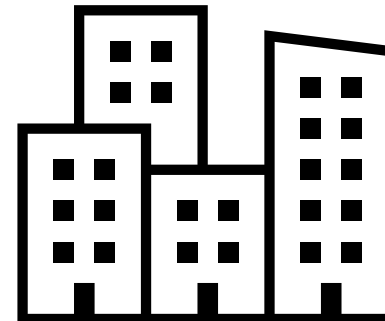
HAS undeclared
cash



Clandestine (undeclared)
workers



Who are working at a large real estate project





- The main actors have now undeclared cash to pay off their undeclared workers.
- The risk to be detected and prosecuted as “employer” of undeclared workers has considerably decreased.
- The main actors will increase their profit due to VAT refund/offset on fictitious services invoiced by bogus companies. The profit can/will be shared with involved criminal organization through fictitious invoicing of services for consulting or similar.
- The criminal organization can exploit immigrants from human trafficking as cheap workforce.
- The criminal organization is able to launder important amounts of money by being paid via bank transfer or by participating in the real estate project or the ownership of a company.



- The loss for authorities is not limited to VAT only, but can result in further important losses regarding direct taxes, excise duties and most of all social fraud
- Cooperation on national level essential between all relevant authorities!
- ✓ Mutual monitoring of labor-intensive sectors on domestic level
- ✓ Risk-based monitoring of new actors with potential MT profile
- ✓ Sharing of inspection reports
- ✓ Access to employment data
- ✓ Evolution of turnover and payable/deductible VAT
- ✓ Analysis of VAT debts
- ✓ Monitoring of FMCG/Tobacco/Alcohol sector
- ✓ Efficient AML strategy



Questions?
Thank You!