



## MAJOR CASE MANAGEMENT CASE STUDY PART 1

### CONTEXT:

You are a criminal investigator in the Criminal Investigations Program of your tax administration in Country A.

### LAWS OF COUNTRY A

The following laws apply to your cases:

- A value-added tax (VAT) of 10% is mandated by businesses on all products and services with the exception of several zero-rated items, including exports to foreign countries;
- All VAT paid by the businesses on any cost of sales or operational expenses is recoverable by each business, meaning that the difference between the VAT charged to clients and VAT paid on expenses is the amount payable to the federal government on a monthly, quarterly or yearly basis;
- Your investigative unit is, under normal circumstances, required by law to complete an investigation within one year of executing search warrants. If this is not possible, a reasonable explanation as to the complexity of the case is required;
- In Country A, tax investigations and tax audits are conducted by distinct and separate groups;
- Country A is a common law jurisdiction.

### REFERRAL TO INVESTIGATIONS UNIT

You've recently been assigned to investigate Art Centre Export Ltd. (ACEL). This case was referred to the criminal investigations program.

The details and facts of the audit ACEL are as follows:

- The audit has been conducted by Frank Smith. During his audit, he spoke with the shareholder, Kevin Williams;
- Some facts about the audit:
- Frank conducted a VAT audit of a one-month period;



- ACEL purchases art lithographs from suppliers within its country and exports them for resale, mostly to Panama;
- During the audit period, ACEL purchased 95 lithograph paintings at an average of \$1,200 each, paid \$120 VAT average per painting and exported each to foreign clients;
- The total refund claimed was \$12,900 (\$11,400 for painting plus VAT paid on other various costs of sales/administrative expenses of \$1,500);
- The refund was paid to ACEL and deposited into its corporate business bank account;
- Frank noticed that a monthly refund of close to the same amount was paid to ACEL in the past twelve months, totalling \$154,270;
- ACEL's shares are 100% owned by Kevin Williams;
- ACEL's address in the tax authority's system is shown as: 100 Bank Street, Suite 270, Your City, Country A. Its telephone number was 888-555-1234;
- All paintings were purchased from a supplier by the name of Art Supplier Limited (ASL);
- Frank looked in the tax authority's system to see if ASL was remitting the VAT charged to ACEL. He found that ASL was remitting sufficient VAT to include the amount charged to ACEL. ASL however had high cost of sales and remitted a net amount of VAT of only \$345. He noted that ASL's shareholder was Robert Williams;
- Frank also reviewed Customs documents for the export of the paintings. He found that the documents appeared to be in good order as all include the customary Customs stamp of export;
- Most of the lithograph paintings were exported to a company in Panama, Panama Art Centre. Sales invoices were reviewed and Frank found that each lithograph was sold for \$1,300 each. Frank also asked to see the corporate bank account and found money originating from Panama monthly for the sale of all lithographs;
- Sales invoices to Panama Art Centre identify Miguel Garcia as the contact person;
- Sales invoices also showed an email address for ACEL as: ACEL123@kmail.countryA;



- Given the amount of sales activity, Frank found that the corporate bank account seemed to lack activity. The month's activity included: receipt of sales from the previous month, receipt of VAT cheque from the tax authorities, there were little other transactions. There was a cheque to Adam Williams for \$5,000. Kevin said Adam was his brother and he owed him money;
- Frank didn't find any internet presence for either the supplier, exporter or foreign company;
- Frank referred the file to Investigations for review.

### ADDITIONAL CASE FACTS:

In conducting additional investigative steps you learned the following:

- You've examined all the refund cheques to ACEL and you know that they were all deposited to a National Bank account, number 707-077;
- The cheques were sent to the address noted on the system for ACEL;
- You have visited the address of 100 Bank Street and found that it is occupied by UPS Worldwide. You spoke with the Manager and he said that: 1) they have operated at the address for years; 2) they are in the business of shipping but also rent mail boxes; 3) sometimes, their clients note their mail box number as a suite; and 4) box number 270 is rented to Jada Jones;
- The manager of UPS also said that they also rent space to enable people to conduct their business and they also provide a telephone service system;
- The Manager of UPS Worldwide states that he provide additional evidence if a Judicial Order is presented. He also notes that their Headquarters is situated in Germany;
- You look in your tax systems and find that Jada Jones reports the same address as Kevin Williams and both state they are single on their tax filings;
- You visited the space where Frank met with Kevin Williams and found that it is a rent-a-space location owned by UPS Worldwide.
- As you are moving along in your investigation, your director approaches you to tell you that he has received 12 additional audits originating from throughout the country that appear to have commonalities to your case. See attachment for these audits (titled "MCM Audit Summaries Handout"). He wants you to review the facts of each to see if they are connected.



- After your review, you conduct a search in the tax authority's systems by: Corporate name, Director name, Address, Telephone number and any other factor that could connect the corporations. You find a total of 54 corporations that export lithographs in the same or similar fashion.

## FOR YOUR ACTION:

### *In your breakout group(s):*

- **CONDUCT** the analysis assigned to your group. Note: if you make any assumptions, please specify what they are.
- **DESIGNATE** a presenter who will provide a presentation to the class outlining your groups findings.

### GROUP 1

What facts do you think you will need to prove to obtain a conviction and what evidence will be required to prove the case beyond a reasonable doubt?

### GROUP 2

Before you continue the investigation, what do you suggest to your director as an approach to this case? Do you think that you can present / prepare this case for referral to the Prosecution on your own?

### GROUP 3

Discuss and present what you believe the "theory of the crime" is, including who is/are the suspect(s), what his/her/their role(s) is/are or might be.

### GROUP 4

Discuss the challenges that will be faced by this investigation and provide an action plan to address these challenges.

## HANDOUTS:

- MCM Audit Summaries Handout