



## IRS – CRIMINAL INVESTIGATION International Operations

Special Agent Anthony Cook  
Attaché

American Embassy – London Post

IRS – Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.



The London Post Attaché Office focuses on the United Kingdom, France, Ireland, Italy, Portugal, Monaco, Northern Africa, and the Middle East.

# IRS – CRIMINAL INVESTIGATION

1919 - Intelligence Unit created to investigate widespread allegations of tax fraud.

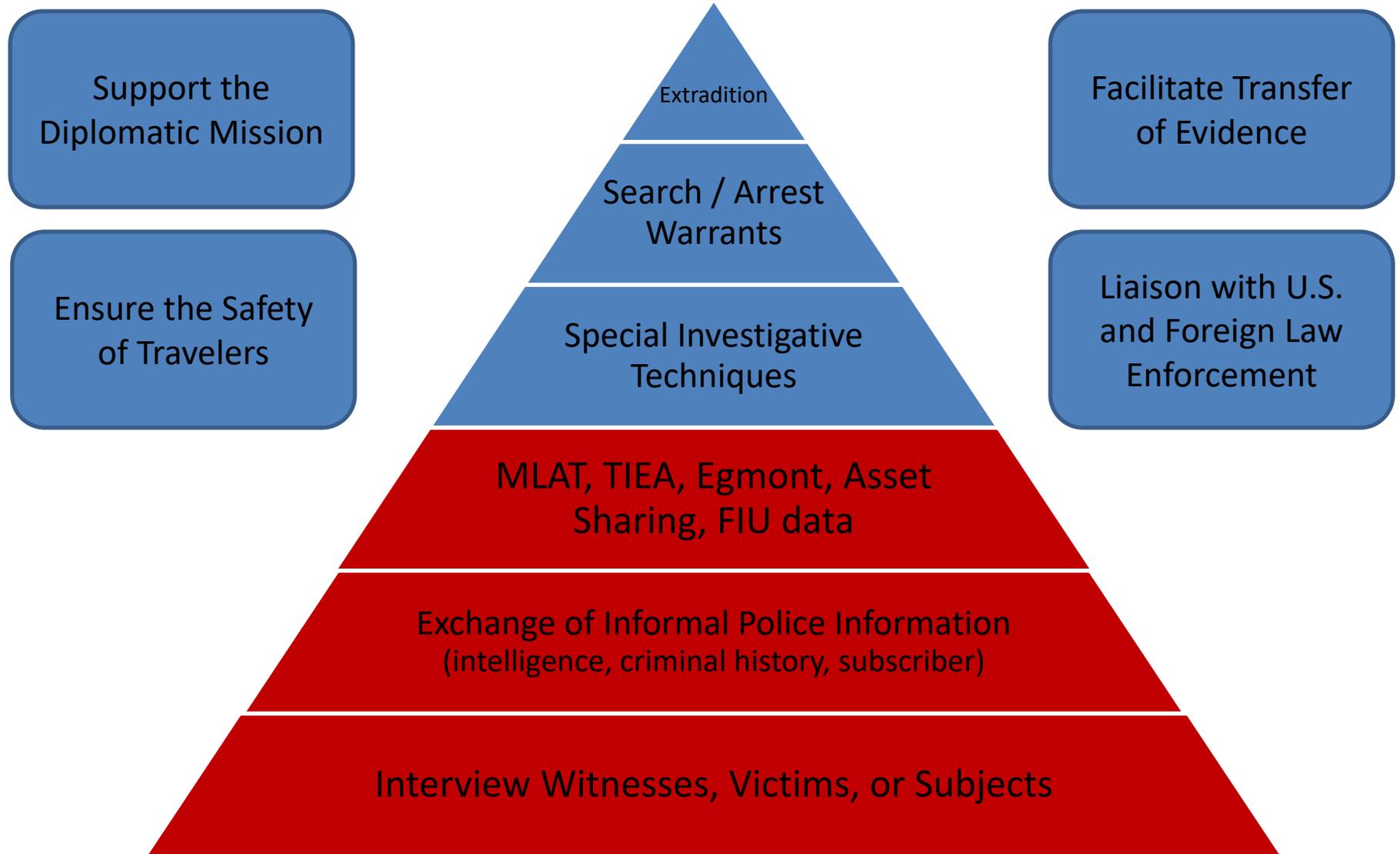
1978 - Intelligence Unit becomes Criminal Investigation and jurisdictions expanded to include money laundering and currency violations.

Special Agents investigate various financial crimes, serve subpoenas, execute search and arrest warrants, conduct undercover operations, and carry firearms.



- International Tax Fraud
- Refund Fraud
- Corporate Tax Fraud
- Employment Tax
- Stolen Identity Fraud
- FCPA
- Abusive Tax Schemes
- Counterterrorism
- Securities Fraud
- Legal and Illegal Source
- Terrorist Financing
- Public Corruption
- Cyber Crimes / Virtual Currency
- Organized Crime
- Foreign Trust Promoters
- Money Laundering
- Narcotics Trafficking
- Data Compromises

# FACILITATING REQUESTS FROM SPECIAL AGENTS



# IRS – CRIMINAL INVESTIGATION



2,159  
Special  
Agents

835  
Support  
Staff

1,642  
Warrants  
Executed

91.5 %  
Conviction  
Rate

3,019  
Investigations

2,294  
Indictments

2,549  
Sentenced  
(Prison  
Average - 42  
Months)



# Trends since the Global Pandemic

- ❑ The methods of spending money (from services to products)
- ❑ From cash to credit transactions
- ❑ The prevalence of mobile payment applications
- ❑ A possible stabilization of virtual assets
  - ❑ Public companies
  - ❑ Public exchanges
  - ❑ Possible regulation
  - ❑ Acquisitions by Larger Financial Institutions
    - ❑ Dot.Com timeframe and banks
- ❑ Day Trading Schemes
  - ❑ A significant increase in day trading since global lockdowns
- ❑ Boiler Room / Investment Schemes
- ❑ Stimulus Fraud (false refunds)
- ❑ Charity Frauds raising money for victims of Covid-19
- ❑ Fraudulent vaccine frauds
  
- ❑ LET'S ALSO TALKING ABOUT SWIFT...

# U.S. CITIZENS CONVICTED OF TAX EVASION

Wesley Snipes – served a three year prison sentence – owed \$7 million.

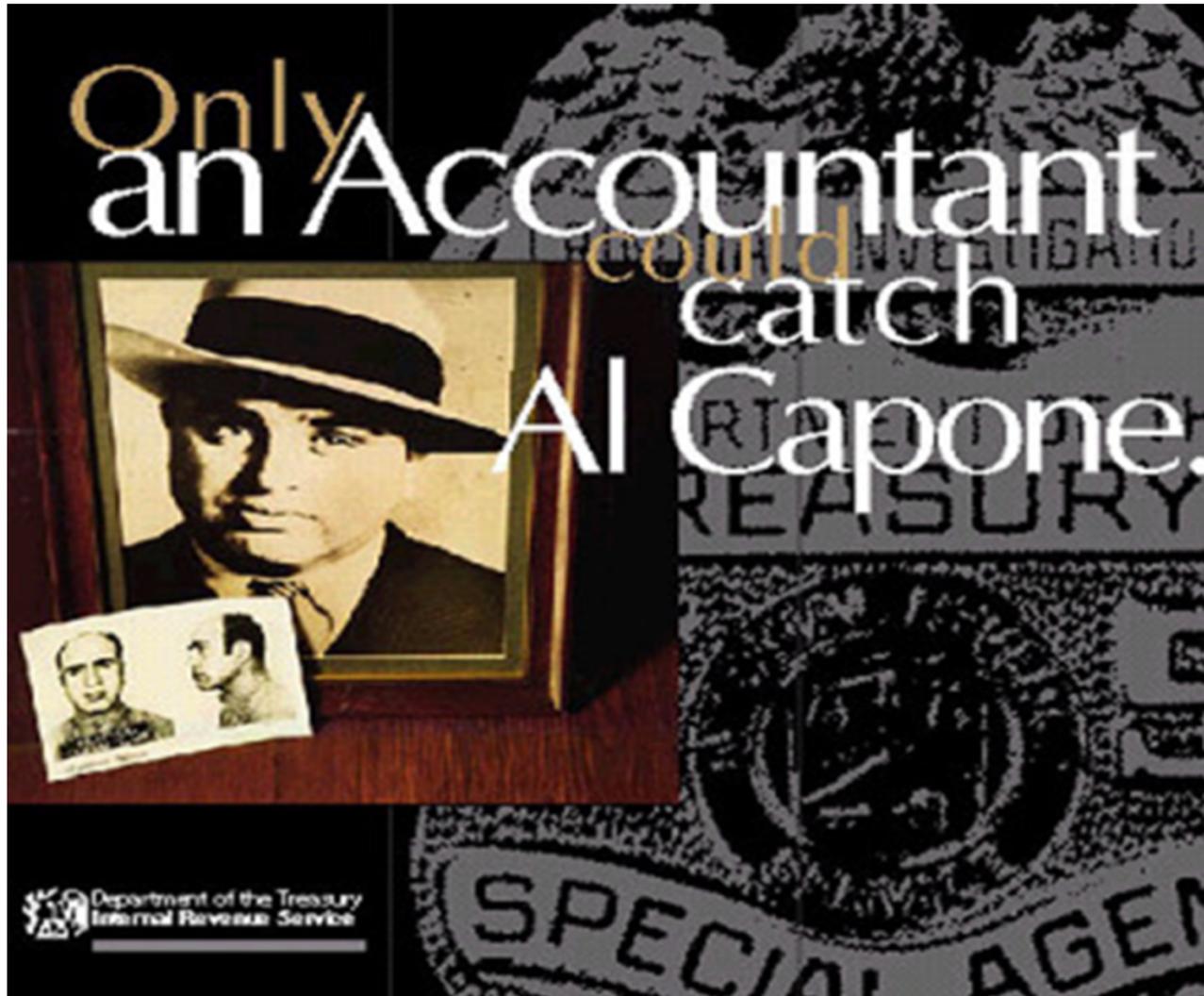
Pete Rose – served a five month prison sentence – owed \$410,000.

Willie Nelson – avoided prison sentence – blamed his accounting firm – owed \$16 million – paid IRS debt through a double album entitled The IRS Tapes – Who'll Buy My Memories.

Richard Hatch – served more than four years in prison – owed \$3 million.

## Key Facts About America's Most Famous Convicted Tax Evader:

- ❑ Born 1899 – Deceased 1947
- ❑ St. Valentine's Day Massacre
- ❑ 5/29/19 – Convicted of Carrying Gun – Served less than a year
- ❑ Nickname "Scarface"
- ❑ February 14, 1929
- ❑ 2/28/31 – Guilty Contempt of Court – sentenced to six months
- ❑ Boss of Chicago Outfit Gang
- ❑ 7 members of rival gang killed
- ❑ 10/18/31 – Convicted of Tax Evasion – sentenced to 11 years in prison, fined \$50,000, charged \$7,692 for court costs, and owed \$215,000 in taxes and interest
- ❑ Thrived during Prohibition Era
- ❑ Lincoln Park Chicago
- ❑ Boss reign ended at age 33
- ❑ Lined up against wall
- ❑ Public Enemy # 1
- ❑ Shot by four unknown assailants
- ❑ Incarcerated in Atlanta and Alcatraz



[Al Capone Downfall - YouTube](#)

# How Much Has Changed

- ❑ Interviewed Witnesses, Victims, Informants, and Subjects
- ❑ Analyzed Multiple Years of Bank Statements
- ❑ Identified true Beneficial Ownership of Gambling Centers
- ❑ Addresses Threats Against Lives and Offers of Bribery
- ❑ Executed Search Warrants to Search for Financial Information
- ❑ Interviewed Bank Officials to Determine Ownership of Safe Deposit Boxes
- ❑ Testified at Grand Jury and Trial
- ❑ Calculated Unreported Income and Tax Due and Owing
- ❑ Traced Deposits as well as Cash Transactions to Prove Net Worth
- ❑ Discovered Double Set of Books to Calculate Criminal Tax Loss

# We have had heard these common phrases:

- Follow the Money
- All Crimes Involve Finance
- Tax Crimes Know No Border
- Tax Crimes are Not Victimless
- An example of inter-agency collaboration, specifically investigating financial crimes, is the FIFA case.

[FIFA Case](#)

# Types of Corporations

- ❑ Corporations, trusts, foundations, and partnerships play a major role in the global economy. An overwhelming majority of these entities are legitimate. They serve multiple purposes; including, but not limited to, maximizing shareholder value, generating profits, and maintaining and developing new customer relationships for products and services.
- ❑ Other goals and objectives for entities may be to increase environmental awareness, continue to innovate technologically, and recruiting and maintaining a stable workforce.
- ❑ While most corporations are legitimate and contribute to global economies, coupled with the fact they pay their share of taxes based on each country's tax rates, criminals, terrorists, and fraudsters, realizing certain legal protections and anonymity benefits, have misused the true intentions of corporations in order to promote, conceal, and advance their criminal enterprises.

# Other Types of Entities

Trust: Fiduciary arrangement that allows a third party, or trustee, to hold assets on behalf of beneficiaries. It is typically used to minimize estate taxes. A legitimate vehicle to ensure the transfer and management of assets.

- ❑ Marital Trust
- ❑ Charitable Trust
- ❑ Generation-skipping Trust
- ❑ STAR Trust
- ❑ Illegitimate trusts
  - Evade taxes
  - Evade payments to creditors
  - Evade payments to ex-spouses

Foundations: Generally philanthropic organizations that are created and financially supported by a corporation or individual (although it remains a separate legal entity). One example is the Bill and Melinda Gates Foundation.

# Misuse for Corporations

- ❑ Corporations , or “corporate vehicles”, especially in a global economy, can be used for illicit purposes:
  - money laundering
  - bribery and corruption
  - improper insider dealings
  - tax fraud
  - hiding and shielding assets from creditors
  - defrauding investors
  - financing of terrorist activities
  
- ❑ Criminal organizations have responded to money laundering laws enacted by governments and financial institutions by incorporating entities. It is an excellent way to disguise criminal activities, conceal the flow of illicit funds, convert proceeds of crime, and reintroduce the traditional financial system.
  
- ❑ [Breaking Bad - Money Laundering](#)

# Why Criminals Create Corporations



# Misuse for Corporations

## ❑ Trends involving the Misuse of Corporations:

- Legal persons unknowingly may be involved with some type of criminal financial activity (bank teller)
- Individuals using corporations to hide their assets to evade taxes
- Funds flow from individual accounts, to corporate accounts, to trust accounts overseas where the identify of the true beneficiary is concealed
- Shell companies are being utilized to facilitate bribery (criminals aware the additional layers of insulation in multiple jurisdictions make it increasingly difficult for law enforcement to identify the true ownership)
- Anonymous trading of securities in offshore brokerage houses to escape capital gains taxes (referred to as market fraud). This is prevalent with insider trading and securities fraud

# Misuse for Corporations

- ❑ Why are corporations so appealing to criminal enterprises?
  - Corporations are generally easy to set up
  - Can be done online in some countries
  - They do not have to cost a lot of money
  - Umbrella organizations / shell corporations to conceal ownership
  - Corporations can have charitable affiliations used to transfer funds overseas
  - Illicit Funds have the appearance of legal income or dividends
  - Shell companies can be used for bribery (arms length transactions)
  - If multiple jurisdictions are involved it is extremely difficult for law enforcement
  - Many jurisdictions do not have a national database of corporations

# Misuse for Corporations

## ❑ Goals of a criminal organization when creating a corporation

- Anonymity
- Shareholders do not have to be reported
- They want to spend their money
- The corporations can be both legitimate or illegitimate
- Shield assets from creditors, spouses, children, business partners
- File bankruptcy without discovering assets owned

# Misuse for Corporations

- ❑ Goals of a criminal organization when creating a corporation
  - ❑ Evading Taxes
  - ❑ Profit skimming
  - ❑ Double invoicing – false billing
  - ❑ Transfer pricing abuses – manipulation of prices in a foreign jurisdiction by subsidiaries to shift income away from parent country
  - ❑ Diversion of income to countries with lower corporate tax rates
  - ❑ Repatriate funds by extending a false loan

# Misuse for Corporations

- ❑ Goals of a criminal organization when creating a corporation
  - ❑ Financing Terror Activities
  - ❑ Raising awareness of anti-government ideas and concepts to create instability and political unrest in countries
  - ❑ Funneling funds to political candidates and elected officials to continue protections in countries
  - ❑ **Bribing public officials to earn lucrative government contracts**

# Misuse for Corporations

## ❑ How to achieve anonymity

- Bearer shares – physical possession of a certificate – the name of the shareholder is not listed – transferable by physical delivery – they can be used to obscure ownership
- Nominee shareholders – makes a public registry useless – true owner won't have to file tax returns
- Nominee directors – conceals true owners – jurisdictions moving towards not accepting nominee directors – or reducing amount of directors
- Bribe local politicians, civil servants, or bank officials

# Misuse for Corporations

## ❑ How to achieve anonymity

- Chaining – becoming prohibited in numerous jurisdictions – basically prohibits the use of a director in one jurisdiction to own a trust in a second jurisdiction and a separated related / yet unrelated individual owns a third corporation in a third jurisdiction
- Intermediaries – formation agents, notaries, trust companies, lawyers, trustees – names of shareholders do not appear on official records – often used to establish bank accounts to circumnavigate due diligence

# Misuse for Corporations

## ❑ Promoters of Schemes

- Often have a financial, tax, or legal background
- Recruit people at conferences
- Cold calls, emails, social media, DarkNet
- Promise unrealistic rates of returns (illegitimate use)
- Guarantee anonymity (legitimate use)
- Guarantee overseas accounts won't be reported to foreign jurisdictions
- Involves a significant amount of trust
- Exploit foreign jurisdictions that don't have proper controls or audit mechanisms
- Identify jurisdictions that conceal true beneficial ownership.

# Misuse for Corporations

## ❑ Red flags

- Multi-jurisdictional entities and trusts with no specific purpose
- Foreign partners without a clear connection to the business
- Use of offshore bank accounts with no economic necessity
- Does the business have legitimate reasons to incorporate in this jurisdiction
- Use of nominees and shell companies for bank accounts, shareholders, directors
- Use of passports / citizenship to establish businesses or accounts overseas to avoid regulatory compliance by financial institutions

# Misuse for Corporations

## ❑ Tax Avoidance vs Tax Evasion

- Tax planning is reasonable based on corporate tax rates
- Worldwide average of corporate tax rates: 23%
- United Arab Emirates: 55%
- Malta: 35%
- Cyprus: 12.5%
- Ireland: 12.5%
- United States: 21%

# Misuse for Corporations

## ❑ Offshore financial centers:

- Some offshore jurisdictions intentionally provide excessive secrecy for their corporate vehicles
- Shell companies constitute a significant portion of entities created in at-risk jurisdictions and increase the potential for illicit activities
- Certain laws in countries actually go very far to protect corporations in their jurisdictions – prohibiting company registrars and prohibits financial institutions from complying with regulatory or international law enforcement officials.

# Misuse for Corporations

## ❑ Offshore financial centers:

- It is an economic debate in these jurisdictions known for protecting the privacy and confidentiality of beneficial owners:
  - The governments want to promote and foster economic growth
  - The regulators also want to develop a strong Anti-Money Laundering program , participate in FATF, and be compliant with international guidelines to conduct business with other countries
- Bribery of local government or bank officials further complicates matters
  - Fairfax loan broche
- Some at-risk jurisdictions have improved their regulatory compliance to conduct financial transactions with foreign partners due to FATCA

# Risk Assessment

- What are the corporate formation requirements in jurisdictions?
- Does the information have to be recorded? Is it updated?
- Does the corporation identify a trustee or beneficiary?
- Are there adequate anti-money laundering statutes in the jurisdiction?
- Is there a public register that identifies beneficiaries? Private register?
- Do the financial institutions involved have a presence in your country?
- Known information about the beneficiary?
- Is the industry regulated and under scrutiny by global investigators?

# Risk Assessment

- Are you able to identify bond or stock holders?
- Is it a shell corporation or a parent organization?
- What is the scale of the business and the source of funds?
- Does the country have strong privacy and secrecy laws?
- What is the relationship with law enforcement between countries?
- Is there a possibility for international cooperation?

# Panama Papers

- ❑ 11.5 million leaked document that provided information about financial and attorney-client information involving over 200,000 entities. The entities were created under Panamanian law by the law firm Mossack Fonseca
- ❑ Leaked by an anonymous source
- ❑ Documents contained personal financial information about wealthy individuals and public officials
- ❑ While offshore business entities are legal, the allegation involves the law firm created shell corporations that were utilized to further schemes involving fraud, tax evasion, and evading international sanctions including regulatory controls and legal requirements.
- ❑ The person who leaked the documents cited “income equality” for their actions and the documents were published on the website for the International Consortium of Journalists – which includes 107 media organizations in 80 countries.
- ❑ [Panama Papers](#)

# Beneficial Ownership

- ❑ According to the FATF, a Beneficial Owner is the natural person who ultimately owns or controls a customer or the person on whose behalf a transaction is being conducted. It also incorporated those persons who exercise ultimate effective control over a legal person or arrangement.
- ❑ Criminals are interested in misusing corporate vehicles because of the anonymity involved. The fact that corporations have unidentified shareholders creates an excellent opportunity for criminals to receive dividends, shelter income, transfer money overseas, and repatriate illicit funds.
- ❑ Umbrella organizations and shareholders create an extra layer of insulation to disguise the true beneficial ownerships of an entity. Often, shareholders can be named or changed without leaving a paper trail. Legal records are possessed in a law firm protected from foreign jurisdiction.

# Combating the Misuse of Corporations

- ❑ International relations and diplomacy – to permit jurisdictions to timely share data on beneficial ownership
- ❑ Compulsion power – use of subpoenas, court orders, warrants
- ❑ Policy makers need to find an appropriate balance between ensuring proper monitoring and regulation with legitimate privacy interests.
- ❑ EGMONT requests
- ❑ Request for Formal Evidence and Informal Information for law enforcement
- ❑ Research Memorandums of Understanding between countries to secure information
- ❑ Undercover Operations
- ❑ Public Directories of Fiduciary Owners

# Professional Enablers

- ❑ A Discussion of the Professional Enablers Report Published by the OECD

# Professional Enablers

- ❑ Operation Invest Offshore
  - ❑ Undercover Operations
  - ❑ Setting up the “Purported Scheme” and “Sting Provision”
  - ❑ Moving the Money
  - ❑ Repatriating the Money
  - ❑ Cooperation
  - ❑ Lessons Learned
    - ❑ Questions about ROI
    - ❑ Appearance of UCA’s
    - ❑ Frustration about Liquidating Too Early

# Beneficial Ownership

## ❑ Nominees

- Have legal authority for overseas funds and business decisions
- In actuality, are a figurehead and don't control anything
- The nominee can face significant liability if discovered that the nominee was not doing proper due diligence.
- The nominee, if detected by law enforcement, becomes a liability to the criminal organizations and true owners of the offshore entity.
- They can cooperate with law enforcement and act upon the direction of government agents.

## ❑ Legal reasons for having a trust overseas?

# Beneficial Ownership

## ❑ Intermediaries

- Often needed to navigate local customs and laws
- Familiar with the type of work, cost, and local contacts
- Typically have financial, legal, or tax background
- Fraudulent intermediaries / promoters don't do the required due diligence to verify the shareholders, true beneficiaries, and source of funds
- Costs vary depending on complexity of the structure and the jurisdiction the entity is created

# Beneficial Ownership

## ❑ Challenges to identify true beneficiaries:

- Effectiveness of public registries
- How to enforce offshore promoters conducting proper due diligence
- Identify true business purposes of operating in foreign jurisdictions
- Identify why the entity is building such a complex structure
- Diplomatic and political sensitivities involved with countries

# Beneficial Ownership

## ❑ Following the money trail

- Identify source of funds and profits
  - How was the money transferred offshore?
    - Bulk cash smuggling
    - SWIFT system
    - Correspondent bank
    - Paypal
    - False invoice
    - “Consulting Fees”
    - Digital currencies
- Are the funds proceeds of legal or illegal acts?
- Have similar amounts been repatriated?

# Beneficial Ownership

## ❑ Following the money trail

- Determine if expenses are reasonable
- Legitimate Real Estate investment
- True gambling winnings and losses
- Identify any terms associated with loans
- Identify any legitimate intellectual property proceeds (common fraud)
- Determine frequency of expenses and validate costs compared to goods
- Analyze bank accounts
- Third party witness interviews

# Summary

- ❑ Types of Entities and Shareholders
- ❑ Examples of Corporate Fraud
- ❑ Misuse for Corporations
  - Goals of Criminal Organizations
  - Anonymity
  - Promoters
  - Offshore Financial Centers
- ❑ Risk Assessment
- ❑ Combating the Misuse of Corporations
- ❑ Beneficial Ownership and Professional Enablers
  - Intermediaries
  - Following the Money Trail

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International Operations  
American Embassy – London Post



Attaché

Anthony Cook

[Anthony.Cook@ci.irs.gov](mailto:Anthony.Cook@ci.irs.gov)

WhatsApp +1 202.494.3248