



Case Study: Effective Management for a Financial Investigation

Case Study

Shiny Tax Protestor Company

Shiny Tax Protestor Company ("STP Co.):

- STP Co. operates a tax education business which promotes non-compliance with the *Income Tax Act* and *Excise Tax Act (Value Added Tax – "VAT")*. The basis of the instruction is that 'natural persons'¹ do not have to pay tax.
- Mr. Top operates STP Co. in partnership with his spouse, Mrs. Top.
- STP Co. prepares and sells printed and electronic educational and promotional material.
- 'Educators' sub-contracted by STP Co., conduct seminars for students and offer personal mentoring for a fee. Students operate in all facets of the economy including commercial and retail and straight wage earners.
- Students pay the 'Educator' 7% of their income for 24 months to learn 'natural person' theory and acquire the tools and the knowledge to 'legally' shelter their earnings from income tax. The students rely on STP Co. teachings to not report their income and to not pay income tax. Income tax rates are as high as 50%.
- Businesses pay 3% of their payroll for 24 months to enroll in STP Co. courses to learn how 'natural person' theory reduces payroll taxes to zero, and to avoid collection of VAT. Payroll taxes are ~ 8%, VAT is 5%.
- The courts have found that there is no basis in law for 'natural person' theory (as taught by STP Co.).

Allegations:

1. The income earned by STP Co., Mr. Top, Mrs. Top, and the 'Educators' for teaching 'natural person theory' is taxable and is not being reported to the tax authority.
2. VAT is applicable on the sale of STP Co. learning materials and services. The VAT is not being collected or remitted to the tax authority.
3. 'Educators' are counselling students and businesses to commit tax evasion.
4. Many students following the 'natural person' theory are not reporting their income and thereby evading tax collectively estimated in the tens of millions of dollars.

¹ A theory whereby tax protestors believe that each person is both a 'natural person' and an 'artificial person'; and laws of the state do not apply to 'natural persons'. Therefore if one is careful to structure their affairs to earn income only as a 'natural person', no income tax or VAT is applicable.



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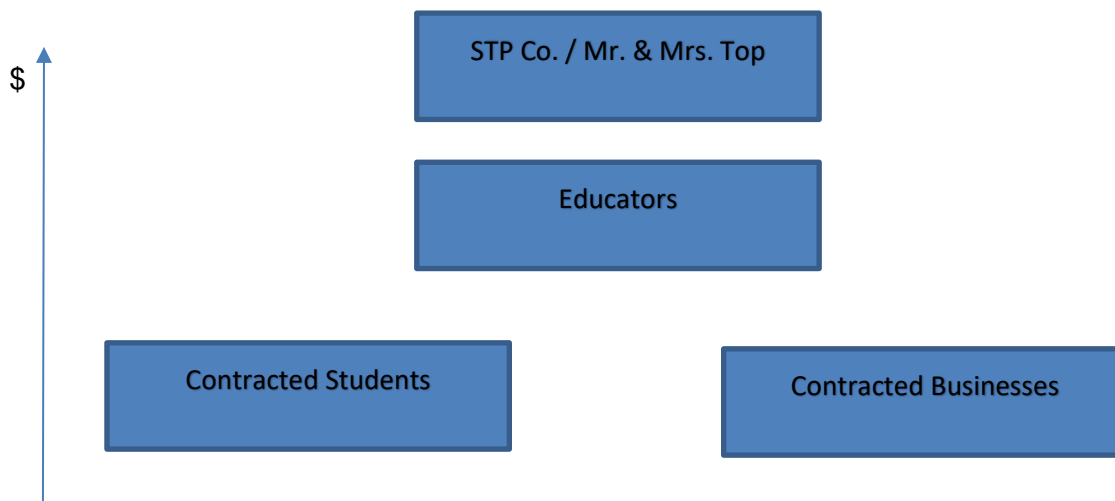
Managing Financial Investigations



Structure:

- The business structure can be characterized as multi-level marketing where fees from the students flow up to 'Educators' and to STP Co. and to Mr. & Mrs. Top.
- There are several 'Educators' and many hundreds of students.

Flowchart:



Financial Flows:

Payments to the 'Educator'

- Students pay 7% of their gross income for 24 months to the 'Educator'.
- Businesses pay 3% of their payroll for 24 months to the 'Educator'.

Payments to STP Co. & Mr. Top

- 'Educators' pay 10 – 20% of the total fees they receive to STP Co., and an additional 10 – 20% of the total fees they receive to Mr. Top directly.

Other Information:

- The scheme is conducted in Canada.
- The business address and residence address for STP Co. and Mr. & Mrs. Top are the same.
- 'Educators' operate out of their respective residences. The residential address for one of the 'Educators' is suspected but there are insufficient grounds for obtaining a search warrant.
- An accountant prepares Mr. Top's tax returns.
- Mr. Top's name appears in the 'Panama Papers' database maintained by the International Consortium of Investigative Journalists.