

## **The Principal II**

You are the Director of the Specialized Unit on Drug Trafficking and Money Laundering of the National Prosecutor's Office of your country.

You are called urgently by one of the national prosecutors for a meeting in his office with staff of the National Tax Collection Agency.

There you meet with the director of the Coordination of Analysis and Asset Investigations of the Agency.

They explain to you a case that is on trial and whose hearing should continue that afternoon, with the following background:

The defendant in the trial is Alberto Rodett, a taxpayer with an active tax code, registered under the headings of "Financial intermediation activities" and "real estate agent".

He was investigated and charged with violation of the Criminal Tax Law for malicious omissions in his income tax and personal property tax declarations for the year 2022 in the amount of 3.5 million dollars and the consequent evasion of taxes in both categories.

The falsity of the declarations and the evasion was verified when a purchase operation of a commercial chain (real estate, goodwill, merchandise in stock and brand) to the company Appleprod SA. for a total price of 5.5 million dollars was noticed. The purchase was made on commission without declaring the principal.

The transaction was correctly documented, registered and declared by Appleprod SA and the notary who intervened correctly withheld the taxes. The purchase was paid 50% at the time of the preliminary contracts by bank transfer and the rest at the signing of the final deed of sale and transfer of the business, in cash.

But the funds used for the purchase were only partially shown on Rodett's previous tax statements:

- In the 2021 income tax return, Rodett declared earnings that, net of expenses, would justify a saving equivalent to approximately US\$ 500,000.
- In the 2020 tax return, the sale of a farm for US\$ 1.5 million was recorded. That money, according to his asset declarations of 2020-21-22 remained as savings in a bank account in Luxembourg.
- There is indeed a wire transfer from a bank in Luxembourg to Rodett's account on a bond sale and purchase transaction for 1.5 million.
- For the rest of the money of the price, Alberto Rodett exposed before the agency, that he received a loan from his brother José, which was documented and that he would pay back as follows:
  - o half of the loan in three years with the proceeds from the operation of the stores,
  - o for the remainder he would incorporate a company with his brother and recognize the balance as a capital contribution.
  - o At that time, he would declare the new company as the principal of the purchase, leaving the commercial chain as the property of the legal entity and both brothers as partners.

- For his part, José's original tax declarations did not allow him to justify the origin of the loan funds.
- However, during 2023 and before the purchase transaction, Alberto filed Rectifying Affidavits of the original Personal Property tax returns for the years 2015/16/17/18/19/20/21/22. In those rectifications he exposed that at the closing of the fiscal year 2015 he had the sum of 3 million dollars in cash that he kept as money in safe deposit box in the successive rectifications of sworn declarations of assets until the one of 2022. And he stated that this money is the one he used for the loan.

The reason for your summons to the meeting is that, during the morning hearing, Alberto Rodett changed his statement. In this opportunity he explained that the purchase money (100%) belongs to the Cortez family, which apparently has a logistics company called Río Arriba SA but in reality uses the ships for clandestine transportation of narcotics. He said that he provides the Cortez family and his company with financial investment services, some of them legitimate, but others for the concealment of funds through front men and the externalization of illicit funds.

That all the money of the operation (including that which appeared in his own sworn statements), in reality belongs to the illicit businesses of this family and that the purchase was made on commission at their request, since, once the operation was finished, they were going to indicate the name of the individual or legal entity that was to be declared the principal. He explained that for the operations he carried out by himself or through third parties, he charged a commission that could reach up to 15 percent of the amount he had managed to transfer, hide or launder, depending on the case.

You have an open investigation against members of the Cortez family for their links to a drug trafficking cartel. And for months you have been looking for indications and evidence of the illicit origin of the millionaire funds that they usually use in operations, which they justify with their company Río Arriba.

## **QUESTIONS**

- 1. What would be your suggestion on the next steps?***
- 2. Do you think it is reasonable to use Rodett's statement and the background of the tax crime investigation to advance your money laundering investigation?***
- 3. What investigative strategy could you propose based on this revelation?***
- 4. Would you assign any role to the staff of the National Tax Collection Agency?***
- 5. What would you advise the Prosecutor to do with the indictment for the criminal tax offense for which he charged in the trial?***