



# IRS – CRIMINAL INVESTIGATION International Operations

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Attaché

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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

# 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)



# 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.

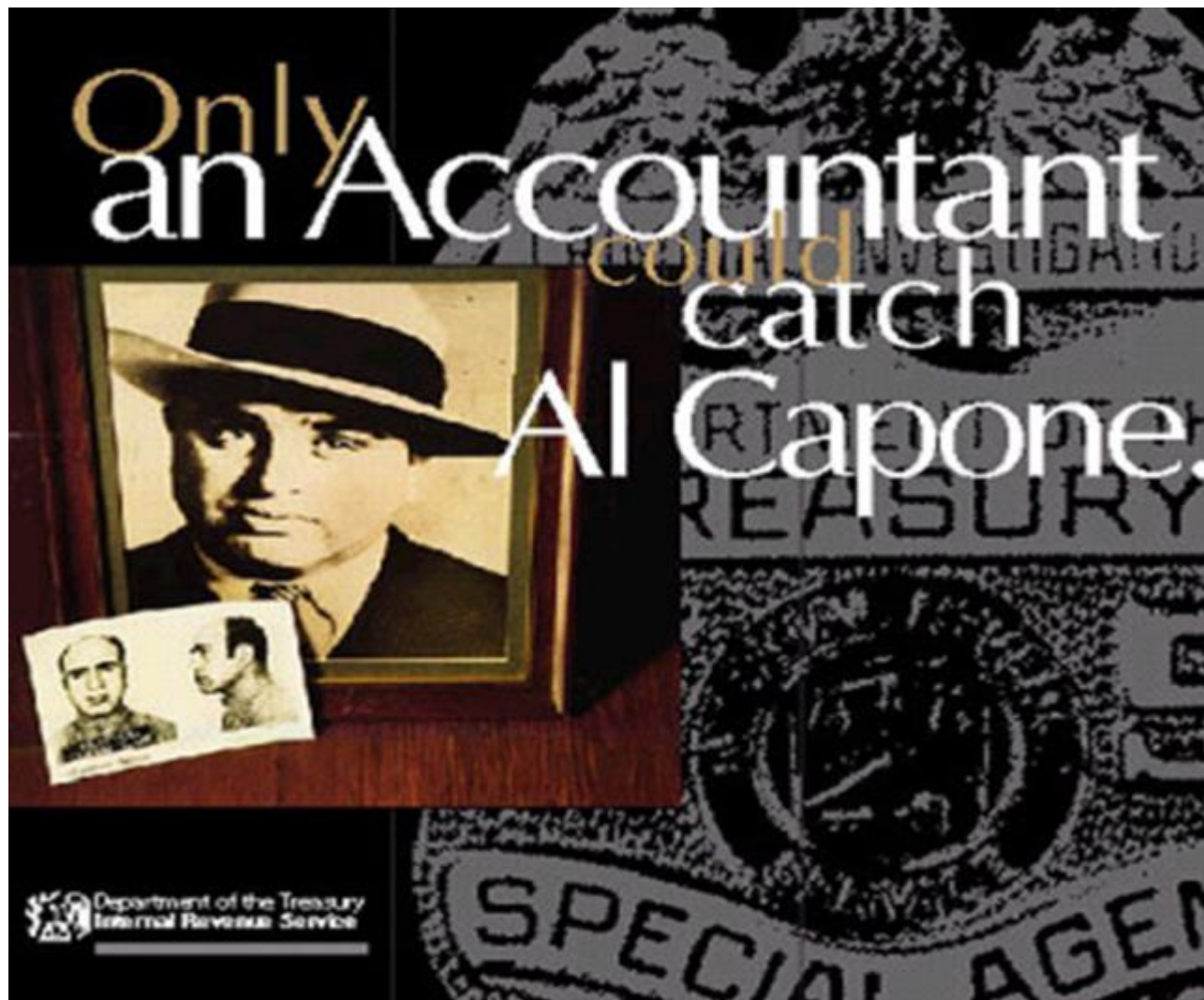
Willie Nelson – avoided prison sentence – blamed his accounting firm – owed \$16 million – paid IRS debt through a double album entitled The IRS Tapes – Who'll Buy My Memories.

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
- ❑ Nickname “Scarface”
- ❑ Boss of Chicago Outfit Gang
- ❑ Thrived during Prohibition Era
- ❑ Boss reign ended at age 33
- ❑ Public Enemy # 1
- ❑ St. Valentine's Day Massacre
- ❑ February 14, 1929
- ❑ 7 members of rival gang killed
- ❑ Lincoln Park Chicago
- ❑ Lined up against wall
- ❑ Shot by four unknown assailants
- ❑ 5/29/19 – Convicted of Carrying Gun – Served less than a year
- ❑ 2/28/31 – Guilty Contempt of Court – sentenced to six months
- ❑ 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
- ❑ Incarcerated in Atlanta and Alcatraz



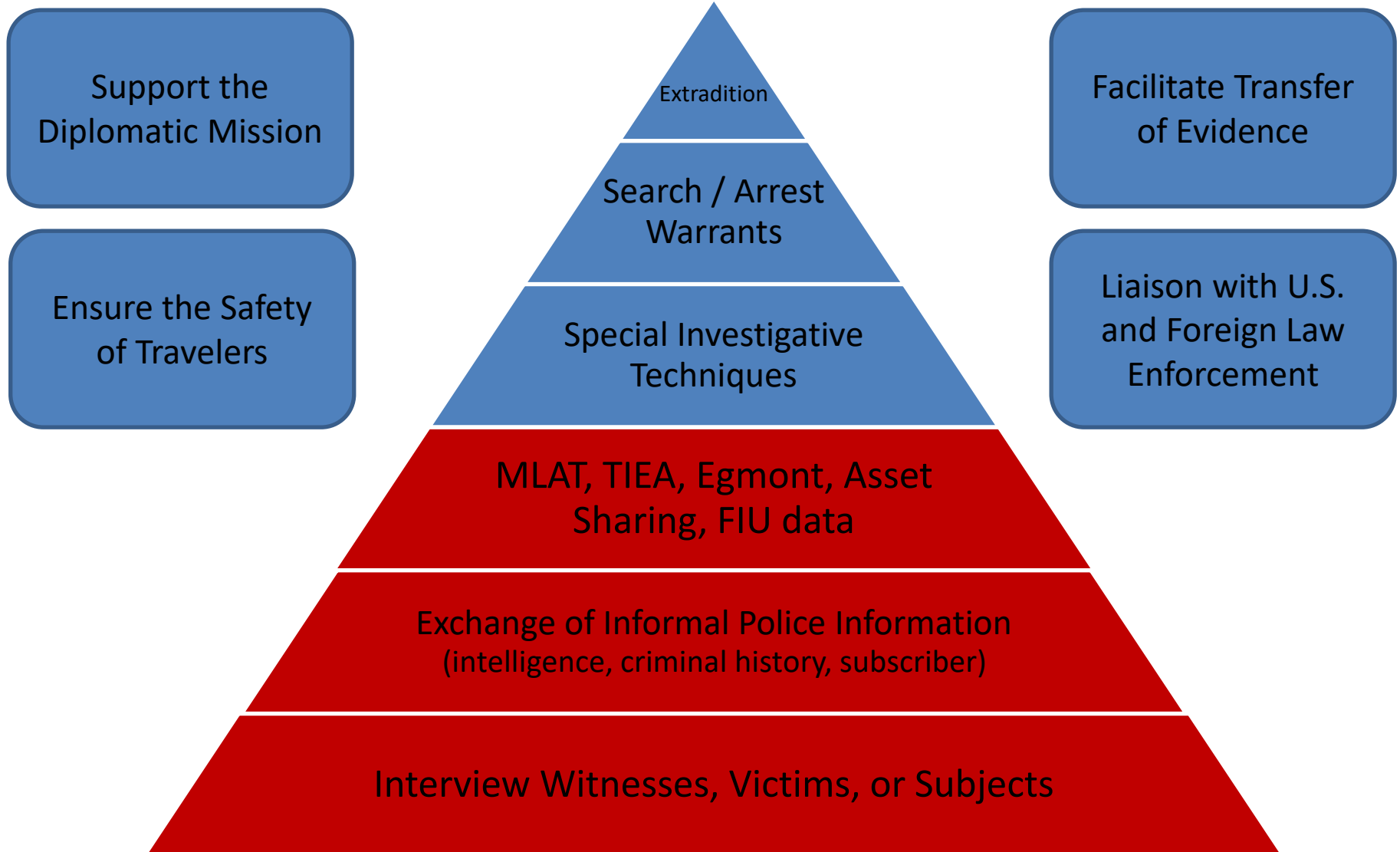


[FIFA Case](#)

# INTERNATIONAL ATTACHÉ LOCATIONS



# FACILITATING REQUESTS FROM SPECIAL AGENTS





# 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
- ❑ 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

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# 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.

# 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

# Types of Entities

Foundation: A private foundation is an independent legal entity that can be set up for charitable purposes. It can also be affiliated with property. They are typically managed by a board of directors. Many jurisdictions do not require the identify of the founder to be revealed to the outside world. Private foundations are typically exempt from tax.

## ❑ Bill and Melinda Gates Foundation

- Launched in 2000
- Over \$50 billion
- Enhance healthcare and reduce extreme poverty
- Expand educational opportunities
- Improve access to information technology

## ❑ Illegitimate Foundations

- Scholarship Example – Cayman Islands



# Types of Entities

## Corporations:

- ❑ Sole Proprietorships
  - Simplest Form
  - Not a separate legal entity for tax purposes
  - A person owns and is responsible for its debts

# Types of Entities

## Corporations:

### ☐ C Corporation

- Taxed separately from its owners
- Owned by shareholders
- Stock can trade on a public stock exchange
- Has a Board of Director's

# Types of Entities

## Corporations:

- ❑ S Corporations / Partnerships
  - Income, Losses, and Deductions passed on to shareholders
  - Partnerships involve two or more individuals

# Types of Entities

## Corporations:

### ❑ Limited Liability Company

- Flexible combination of corporation and partnerships (passes through income but offers limited liability from owners from debts)
- Creditors can't pursue owners to pay business debts

### ❑ Piercing the Corporate Veil

- Refers to a situation when court put aside limited liability and hold a corporation's shareholders or directors personally responsible for the corporation's actions or debts. Involves serious misconduct, like manipulating assets or liabilities, commingling funds, and was company a fraud.

# Types of Entities

## Organizations:

- ❑ Non-Profit Organization

- Surplus revenues used to achieve its goals rather than distribute them as profits or dividends



# Bear Stearns

- ❑ An investment bank, founded in 1923, survived the Great Depression. In 2006, it generated \$9 billion in revenue and \$2 billion in profits. In 2007, its market capitalization was \$20 billion.
- ❑ During the housing boom in America, financial institutions invested in high-risk subprime mortgages that had the potential for high returns. “Toxic” mortgages were bundled with other at-risk mortgages and sold on stock exchanges. This investment strategy benefitted financial institutions when houses continue to increase in value and people were able to secure safe mortgages or sell their homes for a profit.
- ❑ In September 2006, housing prices began to fall. In April 2007, Bear Stearns owned \$20 billion in these mortgage-backed securities.

# Bear Stearns

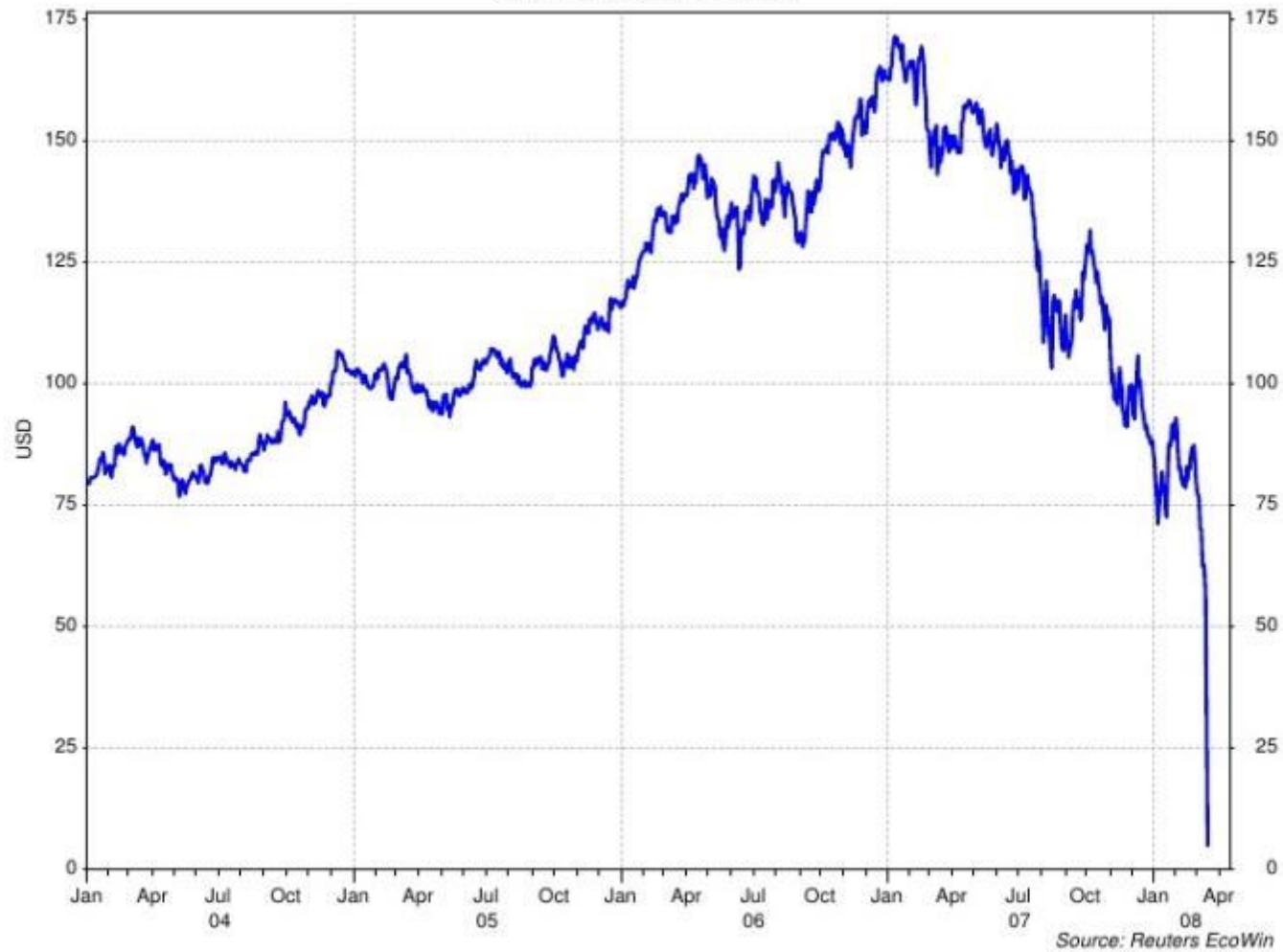
- ❑ December 14, 2006: Bear Stearns posts record earnings and huge profits. The stock closes at \$159.96.
- ❑ January 12, 2007: The stock closes at \$171.51 based on strong earnings.
- ❑ May 24, 2007: The stock closes at \$147.55, a six-week low, after Goldman Sachs publicly stated it was concerned about Bear Stearns exposure to mortgages securities.
- ❑ June 15, 2007: The Wall Street Journal reports that a hedge fund run by Bear Stearns suffered big losses on subprime mortgage investments. The stock closed at 150.09.
- ❑ July 17, 2007: Bear Stearns informs investors that two hedge funds have exposure to subprime mortgage investments. The stock closed at \$139.91.
- ❑ August 5, 2007: The co-president and co-chief operating officer resigns after the CEO loses confidence in him. His estimated annual income exceeded \$15 million. The stock closes at \$113.58.

# Bear Stearns

- ❑ October 5, 2007: Prosecutors launch a criminal probe into the two Bear Stearns hedge funds. The stock closes at \$131.58.
- ❑ December 20, 2007: The company reports its first-ever quarterly loss, driven by \$1.9 billion of bad debt write downs. The company states executives will not receive annual bonuses. The stock closes at \$91.42.
- ❑ January 8, 2008: The CEO is replaced. The stock closes at \$71.01
- ❑ March 12, 2008: The new CEO, on live television, states that his firm has ample liquidity to continue its operations. The stock closes at \$61.58.
- ❑ March 14, 2008: Bear Stearns states publicly that its liquidity position had deteriorated dramatically in 24 hours. JP Morgan, backed by the Federal Reserve, agrees to provide an undisclosed amount of emergency funding to Bear Stearns. The stock closes at \$30.58.
- ❑ March 17, 2008: JP Morgan agrees to buy Bear Stearns for the equivalent of \$2 a share. It represented 1 percent of the firm's value at its record high close 14 months earlier.

## Bear Stearns Ordinary Share Price

Daily closing price, US dollars



[Bear Stearns Case](#)

# Enron

- ❑ 1985: Enron is formed following a merger between Houston Natural Gas Corporation and InterNorth Inc.
- ❑ 1995: Enron is named “America’s Most Innovative Company” by Fortune Magazine. The firm wins the award for six consecutive years.
- ❑ 1998: Andrew Fastow is promoted to CFO and responsible for creating a network of companies to help hide Enron’s losses.
- ❑ 2000: Enron stock closes at an all-time high of \$90.56.
- ❑ Feb 2001: Jeffrey Skilling replaces Kenneth Lay as CEO. Kenneth Lay remains a member of the Board of Directors.
- ❑ August 2001: Skilling resigns suddenly and Lay takes over once again. Enron’s broadband division reports a massive \$137 million loss. Analysts drop the rating of the stock and it closes at \$39.95, a 52-week low.
- ❑ October 12, 2001: Arthur Anderson legal counsel tells auditors to destroy all Enron files, except Enron’s most basic documents.



# Enron

- ❑ October 16, 2001: Enron reports a \$618 million loss. The stock closes at \$33.84.
- ❑ October 22, 2001: Enron announces its facing a probe by the Securities and Exchange Commission. The stock closes at \$20.75.
- ❑ November 8, 2001: Enron admits its been inflating income by around \$586 since 1997.
- ❑ November 29, 2001: SEC expands investigation to include Enron.
- ❑ December 2, 2001: Enron files for bankruptcy. The stock closes at \$0.26.
- ❑ January 9, 2002: The Justice Department launches a criminal investigation.
- ❑ January 15, 2002: Enron is suspended from the New York Stock Exchange.
- ❑ June 15, 2002: Arthur Anderson is convicted of obstructing justice.

## A star has fallen

Enron share price, \$



Source: Thomson Financial Datastream

[Enron Case](#)

# 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
- [Financing Terrorism](#)

# 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

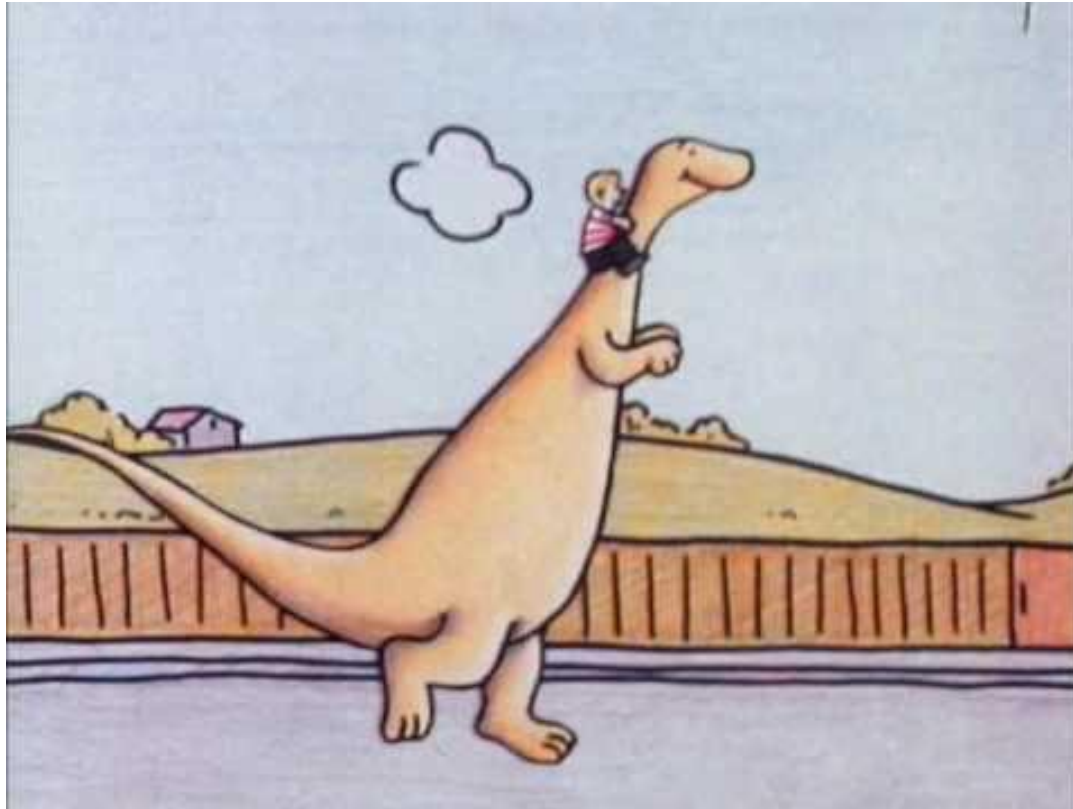
# Misuse for Corporations

## ❏ 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.

# Dino-Vesting

## □ Part 1





# 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](#)

# 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 to secure information
- ❑ Undercover Operations
- ❑ Public Directories of Fiduciary Owners



# Combating the Misuse of Corporations

- ❑ Investigators need to continue to educate themselves on money laundering violations and current trends; such as, investment by citizenship, offshore promoters and trusts, and cybercrimes
- ❑ Asset forfeiture and seizures of assets or proceeds of crime
- ❑ Pursue criminal investigations and civil audits
- ❑ Parallel investigations among multiple countries (asset sharing)
- ❑ Develop general investigations that pursue intermediaries, formation agents, and trust companies

# Dino-Vesting

## □ Part 2



# 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.

# Beneficial Ownership

## ❑ Risks of 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



# Dino-Vesting

## □ Part 3



# 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

- Intermediaries
- Following the Money Trail

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