



## PREREQUISITE – MAJOR CASE MANAGEMENT CASE STUDY PREPARATION

### CONTEXT:

You are an investigator with the **CORADA REVENUE SERVICE** of **CORADA**. Your Director has asked you to evaluate a referral<sup>1</sup> received by your tax agency from the civil section of the **CORADA REVENUE SERVICE**.

### FOR YOUR ACTION:

**READ** the information provided in this document along with the attachments referenced at the end of this pre-reading document in order to familiarize yourself with the case study that will be used throughout the major case management course.

**IDENTIFY** any facts that you learn about the case along with the source of those facts. Utilize the “Fact Tracking Template” for this purpose.

### CASE FACTS

A civil audit was conducted of Mercury Limited. This company was incorporated on February 5, 2018, by Alessandro Kerr. The business activity of the company is described as investment holdings, and the source of revenue comes from liquid assets such as stocks, bonds, and securities. Mercury Limited is jointly owned by Alessandro Kerr and Alexandra Roth.

The referring civil auditor, Maria Ellen Lopez, is suspicious of potential tax misconduct due to her findings.

Mercury Limited was selected for civil audit due to Electronic Funds transfers identified by **CORADA**’s Financial Intelligence Unit (FIU) to **PACIFICA** in 2020. Maria Ellen also knows that the tax laws of **PACIFICA** are still lagging behind others in the world, as it relates to sharing of information. The following total funds were transferred from Mercury Limited to **PACIFICA**:

Year	Amounts transferred	Party to whom money is transferred <sup>2</sup>	Recipient Bank
2018	\$7,250,000	Silver Holdings Incorporated	PACIFICA BBA Bank Limited
2019	\$4,000,000	Silver Holdings Incorporated	PACIFICA BBA Bank Limited

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<sup>1</sup> Referrals are received in CORADA from various sources including: the civil division of CORADA REVENUE SERVICE and other Law Enforcement partner organizations.

<sup>2</sup> Currency is shown in U.S. dollars.



Maria Ellen was unable to find any information pertaining to Silver Holdings Incorporated in **CORADA**. Hence, she is making an assumption that this company was incorporated in **PACIFICA**. Maria Ellen was unable to find any information pertaining to its major business activity, or shareholdings, but there was some information available regarding the company's directors or officers through open source.

Maria Ellen's referral notes that the funds transferred to **PACIFICA** were used as a tax deduction by Mercury Limited. When Alessandro and Alexandra were questioned about this, they said the following:

*"We relied on that financial advice and were told that this tax planning strategy was totally permissible under the tax rules and laws of **CORADA**."*

Maria Ellen also spoke with Mercury Limited's accountant at Future's Accounting, Cosmo Cooks, with regards to the money sent to **PACIFICA**. He stated that he has been the accountant for Mercury Limited since late 2018 and he was asked only to complete their corporate and individual tax returns. He follows Alessandro's and Alexandria's commands. He is not in charge of their books and records, nor does he conduct an audit for the purpose of obtaining financial information or for any other reasons.

As an auditor specializing in small business audits, Maria Ellen is not knowledgeable about international tax affairs but has consulted with an expert in international tax during the civil audit. The international civil auditor she consulted was of the view that the procedures taken to transfer money to **PACIFICA** as described by Alessandro Kerr and Alexandra Roth did not appear to be a legitimate tax deduction.

The international civil auditor also mentioned that he believed that the irregularities and the explanations provided about the funds transferred to **PACIFICA** could be related to a tax scheme resulting from recent legislative amendments to **CORADA**'s income tax regulations which could negatively impact individuals who received or earned income from assets held by resident corporations including offshore companies, and trusts, as well as other foreign investment entities.

According to the international civil auditor, he is aware of certain schemes whereby wealthy individuals set up offshore companies to avoid income tax obligations in **CORADA**, and suggested a referral to the Criminal Investigations Division of the **CORADA REVENUE SERVICE**.



Other known facts:

Mercury Limited's accountant is Future's Accounting.

Mercury Limited paid \$100,000 in federal taxes the year it was incorporated in 2018.

Mercury Limited paid the following in federal taxes after incorporation, compared to its gross income and net income:

Year	Gross Income	Net Income	Federal Taxes
2018	\$8,786,500	\$500,000	\$100,000
2019	6,195,967	259,513	51,902
2020	892,406	47,918	9,583
2021	669,026	5,532	1,106

Mercury Limited's gross income and net income dropped beginning in 2020 as most of its portfolio of revenue producing assets and investments were sold or liquidated in 2018 and 2019.

Alessandro Kerr and Alexandra Roth are reported as common law spouses and live at 15 Triton Street, in **CORADA**.

Alessandro Kerr and Alexandra Roth report the following income in their tax returns which represents salary or wages they received from Mercury Limited. The audit did not uncover any other known sources of income for Alessandro or Alexandra.

Year	Alessandro Kerr	Alexandra Roth
2018	\$25,000	\$ 1,021
2019	25,000	1,021
2020	300,000	1,021
2021	400,000	1,021

According to public records, in 2020, Alexandra Roth purchased the residential property located at 15 Triton Street for \$3,565,000. There is no debt registered on the property purchase.

In 2020 Alessandro Kerr bought an Audi R7 for \$134,750.



**HANDOUTS:**

- Fact Tracking Template – OECD Course
- Documents attached to referral:
  - 1-1 Referral Email
  - 1-2 Examiner's Notes
  - 1-3 Property Search
  - 1-4 Corada Transport Authority Query
  - 1-5 Auditor notes regarding Alessandro and Alexandra
  - 1-6 Auditor notes regarding Future's Accounting
  - 1-7 Electronic Funds transfers reported by the Corada's FIU
  - 1-8 News Article