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# Profile of a tax criminal





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# Types of analysis

	Strategic analysis	Operational (tactical) analysis	
Crime	Phenomenon	Case analysis	
		Comparative case analysis	
Offender	General profile	Group profile	
		Specific profile	

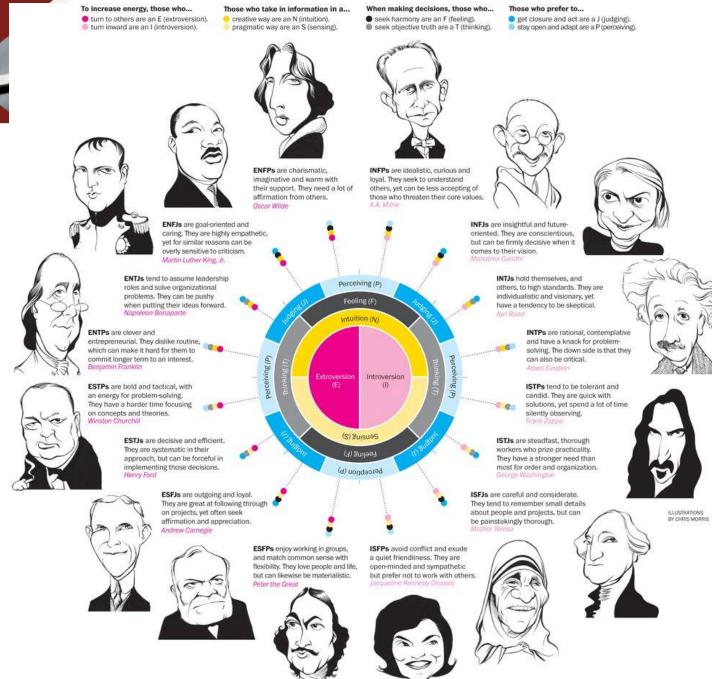


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### What is a Profile?





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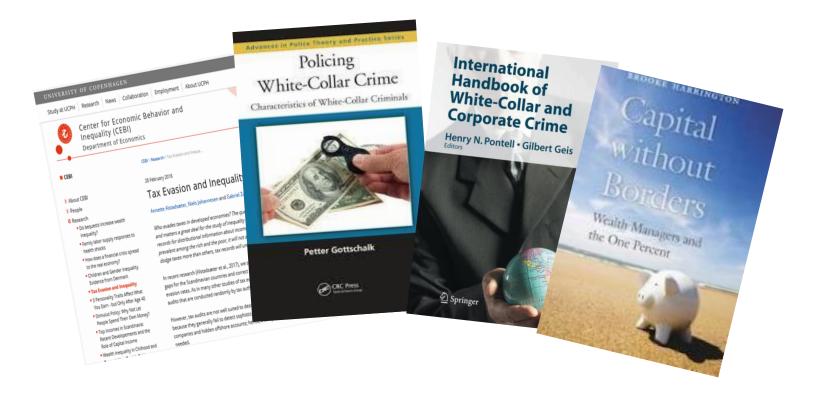
A white-collar criminal is a person of respectability and high social status who commits crime in the course of his occupation.

(Sutherland, 1949)



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### **Research Studies**

#### Bucy et al. 2008:

➤ 8 characteristics: Intelligent, arrogant, cunning, successful, greedy, risk willing, narcissistic, decisive and charismatic

#### Collins et al. 1993:

Comparison of 365 convicted WCC to 344 CEO: irresponsible and nonsocial behavior

#### Hansen 2009:

definition: Wealthy, highly educated, socially connected, works typically for legitimate organisations

#### Gottschalk:

5 stepmodel: Women and white collar crime

#### Shover:

Influence: competition, wealth -> arrogance and has the right



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### Policing White—Collar Crime

- Norwegian 4 year study of 305 bigger cases of convicted white collar criminals
- Average age when convicted 48 years, 5 year process
- 92 % convicted were men
- Average imprisonment 2.2 years
- Average fraud amount 7 mil. Euro
- Average personal wealth 200 K Euro
- Average turnover 25 mil. Euro
- Average no. of employees 124 (only few very big companies)



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# Policing White—Collar Crime

- 27 % convicted committed the crime alone (27 %)
- 30 % convicted owners, board members and CEO
- 45 % convicted lawyers, investors, consultants
- 25 % convicted middle managers, sole company owners
- 92 % convicted worked in the private sector
- 57 % convicted leaders, 43 % followers
- 14 % convicted committed crime for the organisation, 86 % for own benefit
- 29 % convicted "rotten apples", 71 % "rotten barrels"



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# Policing White-Collar Crime

- Neutralization techniques:
- Denial of responsibility (others responsibility, market pressure...)
- Denial of damage (no loss, corruption / deception)
- Denial of victim (earned it, corruption improves)
- Condemnation of the condemnator (naive, does it himself)
- Appeal to higher values (jobs, survival of company)
- Entitled to (default by victim, circumstances)
- Acceptable error (has done may good things, longer leash)
- Dilemma assesment (balancing of opposite arguments)



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### Study: Dishonesty and Selection into Public Service in Denmark

- 862 students (law, economics, pol. science) participated in a dice-game and questionnaire
- 17 % guessed 39-40/40 correct
- 66 % partly dishonest
- 17 % guessed 1/6 correct
- Most dishonest are men
- Most dishonest prefer to work in the private sector switch at approx. +1500 euro/mth.
- Financial sector is most preferred by most dishonest:

Table 6: Top ranked job categories among less and more dishonest

Top ranked job	Est. cheat rate < median	Est. cheat rate $\geq$ median	Difference	p-value
Financial sector	8.62	18.94	10.31	0.0000
Central bank	4.66	10.16	5.50	0.003
Other private	19.11	20.79	1.67	0.60
Law firm	11.89	11.55	-0.34	0.96
Other public	3.96	3.23	-0.73	0.69
Public relations	6.76	4.16	-2.60	0.13
Lobby organization	19.11	13.86	-5.26	0.05
Public administration	25.87	17.32	-8.55	0.003



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## Discussion of a case...



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### Profile of a tax criminal

Can we put a tax criminal in to a formula?



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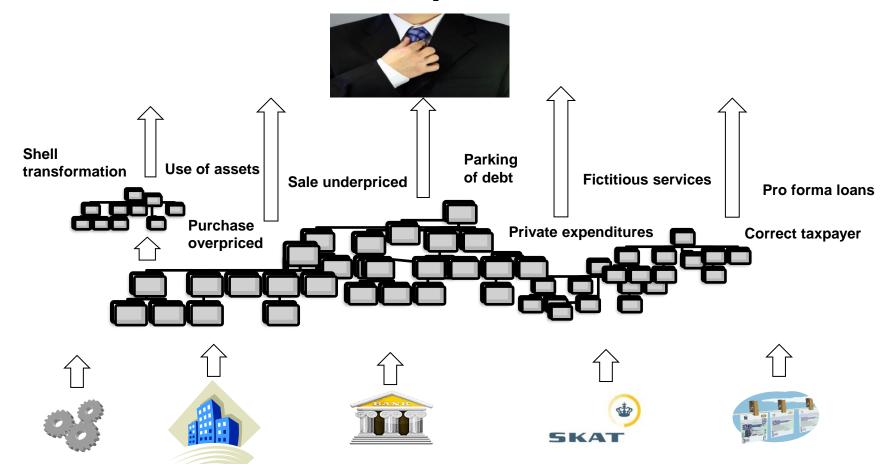
- Risk Indicators
- Sources of information
- Profiling
- Methods of proof



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### Modus operandi





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### **Observations**



Confusing company structure

Unfinished educations

Fast growth – big personal spendings

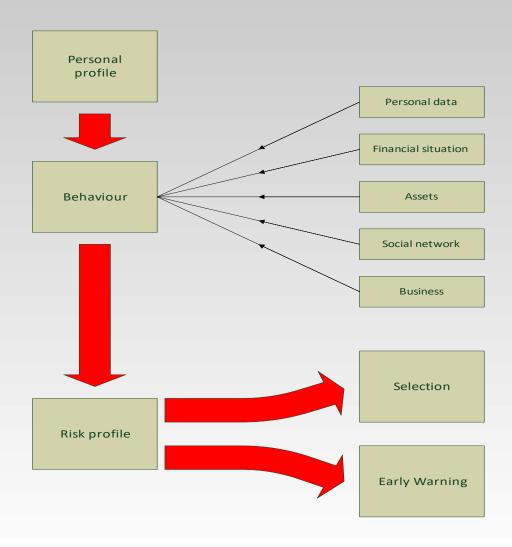
Don't want to pay any tax at all

Activities abroad – Tax havens

Do not perceive themselves as criminals



### **DNA-PROFILE**





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### **Challenges**

- Privacy Act
- Purpose of data collection
- Only a basis for possible investigation



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### Models to identify and prioritize fraud cases



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- identification number
- name
- number of companies
- number of board positions
- number of executive boards
- number of business owned
- number of liquidations and bankruptcies
- zip code
- town

- income
- business deficit
- interest expenses
- salary
- paid tax
- net worth
- MT information
- number of properties
- the value of properties
- number of cars
- assets abroad



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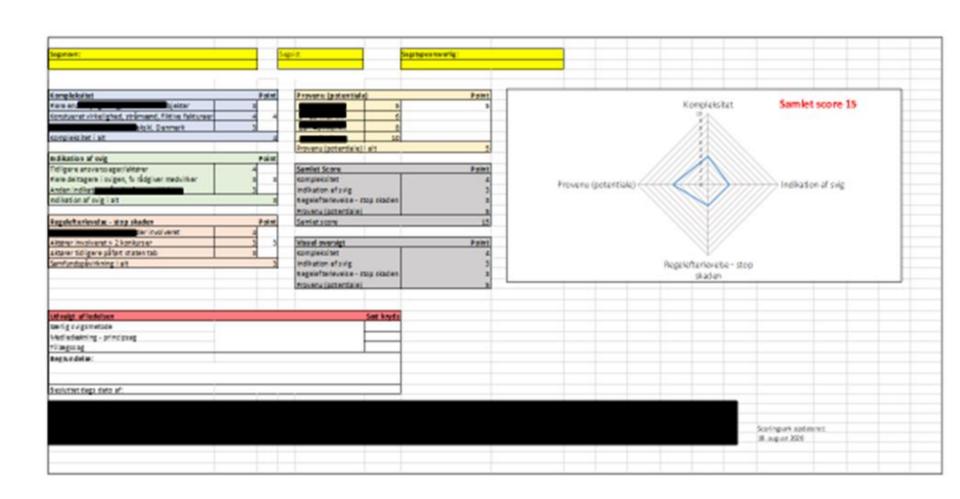


- Taxable income equal to or above DKK 10 million and paid tax equal to or less than 1 million
- Total tax payment less than or equal to 100,000, Net Worth 16, 17 and 18 less than or equal to 100,000, MT incoming, and properties over 10 million
- Total tax payment less than or equal to 100,000, Net Worth 16, 17 and 18 less than or equal to 100,000, and properties over 100 million
- MT exceeding 1 million, Net Worth 16, 17 and 18 less than or equal to 100,000, and taxable income less than or equal to 0
- Zip code, taxable income less than 0, Net Worth 2017-2018, less than 0



Investigative Techniques for the Cash Economy







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### One of our cases





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### An easy way to find the cases can also be ...





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# Group exercise...



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# Summary



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# **Methods of Proof**





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Proving a financial clinics to show by documenting where a subjects money came from and where it went.





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# **Proof**

- What does Methods of Proof mean?
- What are we proving?
- Who are we proving it to?
- How accurate do we have to be?



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# Proof vs. Evidence

- Proof is the end result or effect of evidence, while evidence is the medium or means by which a fact is proved or disproved
- Evidence refers to pieces of information and facts.
- Proof is the logical conclusion we arrive after analyzing the evidence.





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Proof is what you get by analyzing all the evidence.



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# Methods of Proof Direct

Specific Item

### **Indirect**

- Net Worth
- Expenditures
- Projection Method



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### The Net Worth Method

More wealth at the end of the year Than at the beginning of that year — needs income !!



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### **FUNDAMENTALS OF A NET WORTH**

- A Net Worth is used to show the court that the subject incurred personal expenditures and accumulated more wealth than he/she had available to them from reported sources of income during the Net Worth period.
- The Net Worth does not provide direct evidence of tax evasion.
- It quantifies the amount of money and places it in the hands of the accused.





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# **Underlying Theories**

The concept of a Net Worth is simple.

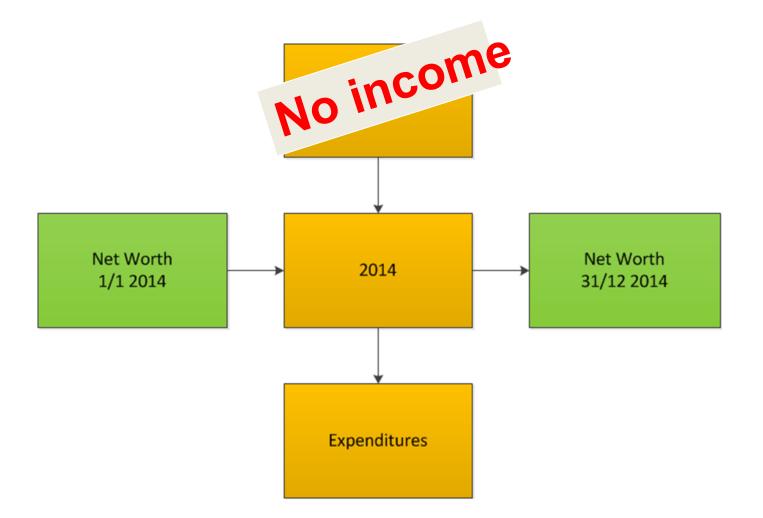
- That unreported net income can only be used in four ways:
  - To buying assets
  - To save it
  - To paying off debts
  - To pay for personal expenditures/ spending it



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### **Net Worth**









### How do we use Net Worth in Denmark

- Previously we used it as the basis for calculating taxable income
- Start of case
- Basis for searching suspicious
- Along with other parameters
- As an estimated
- If unreported Income need the source



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		ASSETS
LESS	-	<u>LIABILITIES</u>
EQUALS		NET WORTH
LESS		PRIOR YEAR'S NET WORTH
	-	
EQUALS		INCREASE/DECREASE IN NET WORTH
ADD	+	KNOWN PERSONAL EXPENSES
ADD/ LESS	+/-	PERIOD DEFERMENT
LESS	-	NON-TAXABLE SOURCES
EQUALS		<b>INCOME PER ADJUSTED NET WORTH</b>
LESS	-	REPORTED INCOME
EQUALS		UNREPORTED INCOME







## **ASSETS**

- Cash on hand
- Money in bank
- Real Estate residence and cottage
- Vehicles
- Investment accounts
- Loans receivable



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21/12 17 21/12 19

### **Assets – Net Worth**

	31/12 17	31/12 10
Money in bank	9.837 €	38.956 €
Real Estate	500.000 €	600.000 €
Car	<u>10.000 €</u>	10.000 €
Sub total	519.837 €	648.956 €





## **How to Determine Assets**

- When was it received and from whom?
- How much did it cost?
- How was it paid for (currency, check, cashier's check)?
- What source of funds was used to receive it?
- What documentation exists for the purchase?





## **Investigating Assets**

- What information do we have?
- What information do we want?
- Where do we find the information?
- What if we can't get the information?



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### Assets – Net Worth

**31/12 17 31/12 18** 

Money in bank

9.837 € 38.956 €

Real Estate

500.000 € 600.000 €

Car

<u>10.000 €</u> <u>10.000 €</u>

Sub total

519.837 € 648.956 €



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## Net Worth Formula

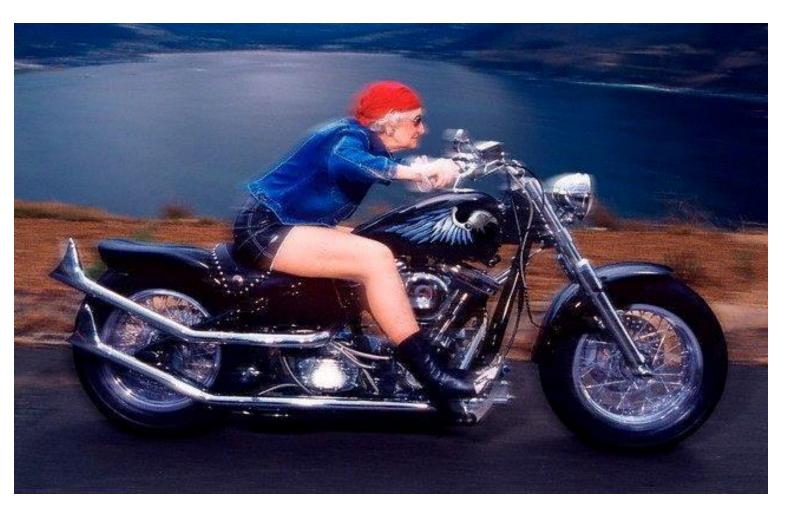
	31 Dec 17	31 Dec 18
Assets	519.837	648.956
Less: Liabilities		
Net Worth		
Less: Prior Year		
Net Worth Increase (Decrease)		
Add: Personal Expenditures		
Period Deferment		
Less: Non-Taxable Sources		
Total Income Per Net Worth		
Less: Reported (Known) Income		
Unreported (Illegal) Income		



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## **A Case**









- Mortgage
- Credit Cards
- Line of Credit
- Loans



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### Liabilities

31/12 17

31/12 18

**Credit Cards** 

22.654 €

10.258 €

Mortgage

200.000 €

150.000 €

Car loans

10.000 €

8.000€

Sub total

232.654 €

168.258 €





### **How to Determine Liabilities**

- When was the liability incurred?
- Who was the creditor or lender?
- What was the original amount of the liability?
- What is the present balance due?
- What was the purpose of the loan or debt?
- How were the proceeds used and where were they deposited?
- What security (collateral), if any, was given for the debt?
- What documentation exists for the transaction and where is it?





## **Investigating Liabilities**

- What information do we have?
- What information do we want?
- Where do we find the information?
- What if we can't get the information?



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### Liabilities

31/12 17

31/12 18

**Credit Cards** 

200 000 £

22.654 €

10.258 €

Mortgage

200.000 €

150.000 €

Car loans

10.000 €

8.000€

Sub total

232.654 €

168.258 €



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### **Net Worth Formula**

	31 Dec 17	31 Dec 18
Assets	519.837	648.956
Less: Liabilities	(232.654)	(168.258)
Net Worth	287.183	480.698
Less: Prior Year		(287.183)
Net Worth Increase (Decrease)		193.515
Add: Personal Expenditures		
Period Deferment		
Less: Non-Taxable Sources		
Total Income Per Net Worth		
Less: Reported (Known) Income		
Unreported (Illegal) Income		





### PERSONAL EXPENDITURES

- Food home & restaurant
- Clothing
- Entertainment
- Transportation
- Tobacco and alcohol
- Other gifts, lottery tickets, life insurance and much more.



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	Hele landet	Enlige uden børn	Enlige med børn	2 voksne uden børn	2 voksne med børn	Husstande med mindst 3 voksne
			kr. pr. hus	stand		
Forbrug I alt	300480	187468	246764	340985	417211	454247
Fødevarer og ikke-alkoholiske drikkevarer	36261	20322	34015	39122	55719	59480
Alkoholiske drikkevarer og tobak	6700	4775	5018	8473	7011	9055
Beklædning og fodtøj	11325	5952	9372	12748	18301	17536
Boligbenyttelse, elektricitet og opvarmning	98046	74384	87320	107180	119858	132367
Møbler, husholdningsudstyr og husholdningstjenester	15884	7764	11424	19612	25443	22580
Sundhed	7716	6247	4333	10851	6607	7062
Transport	40732	20548	28550	49133	59157	69804
Kommunikation	8497	5676	8837	8645	11238	14611
Fritid og kultur	29053	17298	21078	36407	35427	45894
Uddannelse	1446	874	3711	206	3519	3139
Restauranter og hoteller	16942	9074	10852	20429	23058	30061
Andre varer og tjenester	27879	14553	22253	28179	51872	42658
			anta	I		
Antal personer i husstanden	2,1	1,0	2,5	2,0	4,0	3,7
Heraf voksne	1,7	1,0	1,0	2,0	2,0	3,1
Heraf børn	0,4	0,0	1,5	0,0	2,0	0,6
Husstande i undersøgelsen	2194	718	86	833	429	128
Husstande i Danmark (1.000)	2686	1040	123	829	438	257
Antal personer i Danmark (1.000)	5684	1040	305	1657	1730	951





## **Investigating Personal Expenses**

- What information do we have?
- What information do we want?
- Where do we find the information?
- What if we can't get the information?





## **Personal Expenditures**

Food – home & restaurant	45.000 €
Clothing	2.000€
Entertainment	1.000 €
Transportation	2.000 €
Tobacco and alcohol	1.000 €
Other	4.000€
Total Personal Expenditures for 2018	55.000 €



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## Net Worth Formula

	31 Dec 17	31 Dec 18
Assets	519.837	648.956
Less: Liabilities	(232.654)	(168.258)
Net Worth	287.183	480.698
Less: Prior Year		(287.183)
Net Worth Increase (Decrease)		193.515
Add: Personal Expenditures		55.000
Period Deferment		
Less: Non-Taxable Sources		
Total Income Per Net Worth		
Less: Reported (Known) Income		
Unreported (Illegal) Income		



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### Period deferment

Change in value of assets or liabilities.



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## Period deferment



Picasso's Musketeer Bust (1968)



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### Period Deferment – Net Worth

31/12 17

31/12 18

Money in bank

9.837 € 38.956 €

Real Estate

500.000 € 600.000 €

Car

10.000 €

10.000 €

Sub total

519.837 € 648.956 €





### Period deferment

Example: (only the value)

Property 31/12 2017 500.000 €

Property 31/12 2018 <u>600.000 €</u>

Period deferment 100.000 €

Correction will reduce the unreported income



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## Net Worth Formula

	31 Dec 13	31 Dec 14
Assets	519.837	648.956
Less: Liabilities	(232.654)	(168.258)
Net Worth	287.183	480.698
Less: Prior Year		(287.183)
Net Worth Increase (Decrease)		193.515
Add: Personal Expenditures		55.000
Period Deferment		100.000
Less: Non-Taxable Sources		
Total Income Per Net Worth		
Less: Reported (Known) Income		
Unreported (Illegal) Income		







### **Non-Taxable Sources**

- Lotto & Casino Winnings
- Insurance Proceeds
- Inheritance and Other Gifts
- Money from the Old Country
- Sale of Personal Assets







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## Net Worth Formula

	31 Dec 17	31 Dec 18
Assets	519.837	648.956
Less: Liabilities	(232.654)	(168.258)
Net Worth	287.183	480.698
Less: Prior Year		(287.183)
Net Worth Increase (Decrease)		193.515
Add: Personal Expenditures		55.000
Period Deferment		100.000
Less: Non-Taxable Sources		0
Total Income Per Net Worth		148.515
Less: Reported (Known) Income		
Unreported (Illegal) Income		



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## Reported Income

Reported Total Income

Taxes paid

140.000 €

(30.000) €

110.000 €



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## Net Worth Formula

	31 Dec 17	31 Dec 18
Assets	519.837	648.956
Less: Liabilities	(232.654)	(168.258)
Net Worth	287.183	480.698
Less: Prior Year		(287.183)
Net Worth Increase (Decrease)		193.515
Add: Personal Expenditures		55.000
Period Deferment		100.000
Less: Non-Taxable Sources		0
Total Income Per Net Worth		148.515
Less: Reported (Known) Income		(110.000)
Unreported (Illegal) Income		38.515





### FAMILY MEMBERS

- The financial information (assets, liabilities and personal expenditures) will be based on that of a shared household unit.
- Will include the suspect, a husband or wife or common-law partner, and any minor dependant children residing with them during the period.
- Could also include parents living with the suspect.





## **Typical Defences**

The most prevalent defense presented is that the monies are from another source:

- Money from the old country
- Inheritance
- Gambling (not taxable in some countries)
- Loans from family and/or friends
- Gifts



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### A Case



The rich Uncle in America





## Factors in a Strong Net Worth

- Documentation.
- Credibility.
- Presentation.
- Validity of Evidence.





# Preparing for Trial Net Worth

### Have to prove:

- The probable non-compliance act (Actus Reus)
- The intent/knowledge (Mens Rea)
- The wealth (Quantum)
- The probable or likely taxable source (Source)





## **Preparing for Trial**

A strong Method of proof prosecution relies on:

- Weight of the evidence
  - Documentation (sourcing)
- Presentation & Credibility
- Establishing the Opening Position



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## **CAR TAX**





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#### Bentley Convertible Kørselsregnskab / Dagsregnskab

Stelnr. Indreg. dato:

•	<u>Dato</u>		Sted	K start	K slut	Antal km
•	07-aug	_	Tyskland	4511	5811	1300
•	17-aug		Tyskland	6387	7671	1284
•	28-aug		Tyskland	8601	9432	831
•	29-aug		Tyskland	9432	10275	843
•	19-dec		Hamburg	14100	15280	1180
•	21-dec		Hamburg	15481	16689	1208
•	17-apr		Halmstad	0	0	331,4
•	23-apr		Hamburg	0	0	900,5
•	09-maj		Paris	30571	33125	2554
•	14-maj		Tyskland	33125	33930	805
•	15-maj		Tyskland	33930	34350	420
•	16-maj		Tyskland	34350	35125	775
•	19-maj		Tyskland	35170	35954	784
•	20-maj		Hamburg	35954	36900	946
•	21-maj		Tyskland	36900	37800	900
•	22-maj		Tyskland	37800	38500	700
•	22-maj	Langtur	Europa	38500	46133	7633

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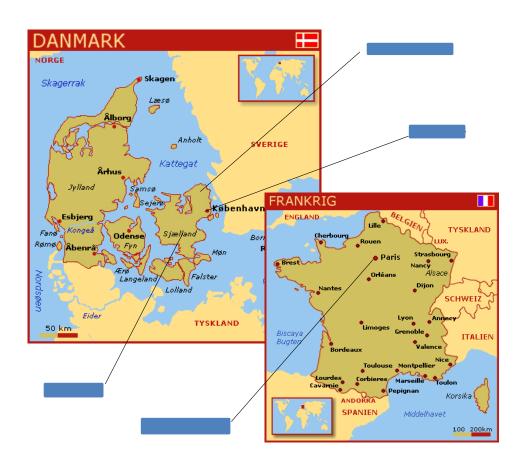




-	10-05-2008 08:50 A	ENMARK	10-05-2008 09:21 V	Denmark.	20.80	10206.3
	10-05-2008 09:23 V	Den	10-05-2008 09:25 15	Denmark	1 00	10207.20
-	10-05-2008 09-29 15	D	10-05-2008 09-48 15	enmark	15.60	10222.8
	29-03-2008 (III US PL 20-03-2008 (0:04 PS					
	10-05-2008 10:04 15	-	10-05-2008 10:10 V	enmark	3.20	10226.0
	10-05-2008 10:11 V	enco	10-05-2008 10 11 @	ark	0.00	10226 0
_	10-05-2008 10:22 @	ark	10-05-2008 10:25 @	ack	1.10	10027.1
			Bellowski Barrett	100	500	15.15
	10-45-2008 18:25 No					
			10-05-2008 10:45 Hz		4.00	
				_	100	-
	10-05-2008 10-38 @	ark	10-05-2008 10-41 K	_	0.80	10227.5
	10-05-2008 15 47 Fa		10.050200015.47.57			0.00
	10-05-2008 15:53 Fa		10-05-2008 15-53 Fa		0.00	343.70
	- Continue C	The same of	A CANADA SA	The second secon		March L
-	10-05-2008 16 06 K	F	10-05-2008 16:43 K		51.10	10279.0
100	10-05-2008 16-27 Fa		10-05-2008 16 35 Fa		9.10	332.80

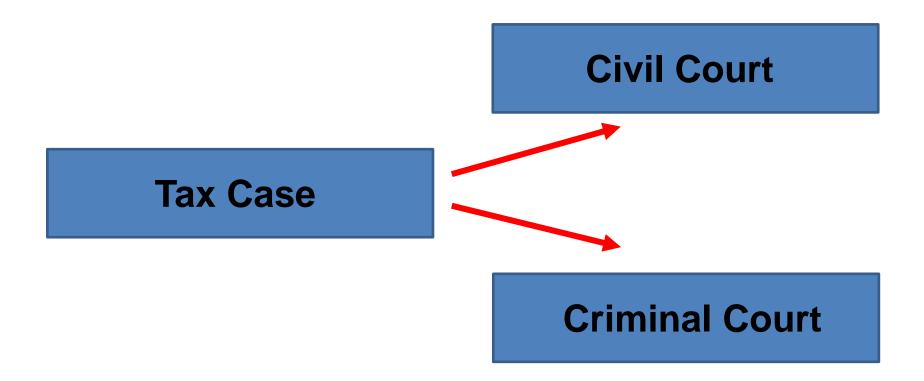
















## **Preparing for Trial**

## How do we use it?

- Civil cases
- Assistance requests to police
- Examples of cases













# **Preparing for Trial**

How have we used it in criminal cases?

 Examples of criminal cases from Denmark

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You are in bad standing













## **Preparing for Trial**

How have we used it in criminal cases?

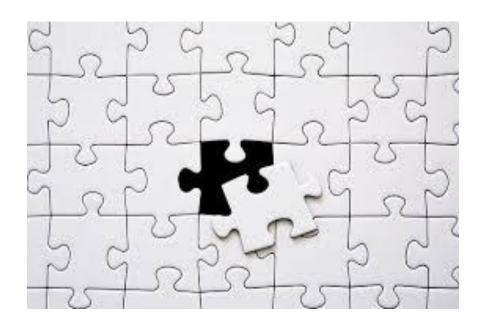
- How does the prosecutor use it?
- How can we use it in the future



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### We have lost more than we have won







### **Common Defences**

Lack of Mens Rea

Non-Taxable Sources

Failure to establish the 'Likely Source'

Opening Cash on Hand





## **Common Defences**

- "Rights" Violations
- Blaming Others
- Lack in Continuity of Evidence
- Unclaimed Expenses





