

Tax evasion, tax fraud and money laundering

This factsheet gives reporting entities an understanding of the relationship between tax evasion and tax fraud, and money laundering.

Introduction

In New Zealand tax evasion and tax fraud are predicate offences for money laundering under the AML/CFT Act. Tax evasion, tax fraud and money laundering often go hand-in-hand given that for criminals to benefit from their crime, they will need to launder the proceeds. This relationship can be described as complex given New Zealand's tax system encompasses different tax types (e.g. PAYE, GST), different rules, and that New Zealand tax residents are required to pay tax on any income they earn worldwide. Income that is earned from illegal activities also needs to have tax paid on it. Equally, it can be difficult for reporting entities to form a suspicion that tax evasion or tax fraud may have occurred when they have limited visibility or understanding of a customer's tax affairs.

Examples and red flags

Generally, transactions that are conducted to launder the proceeds of tax evasion and tax fraud will be consistent with conventional money laundering typologies and will include transactional activity such as wire transfers to 'low tax' or 'no tax' jurisdictions; the involvement of cash in large deposits or withdrawals; or where transactions are conducted outside of a customer expected behaviour or financial profile. However, there are also tax specific red flags which may provide reporting entities further opportunities to detect and deter money laundering, tax evasion and tax fraud, enhance their AML/CFT risk assessments and compliance programmes.

What is tax evasion?

Intentionally not paying the correct amount of tax. This could be by not telling Inland Revenue about income earned or by inflating expenses which you can claim against your income (this reduces tax to pay).

Examples

- Restaurants receiving both cash and EFTPOS but only returning the income that comes from the EFTPOS sales.
- Not returning profits from buying and selling land.
- Businesses withdrawing cash to pay staff and not paying tax (PAYE) on the wages.

What is tax fraud?

The use of a document to get a financial or personal gain.

Examples

- Registering a company for GST, but there is no business or business activity. GST refunds are claimed which are completely fabricated.
- Obtaining another person's personal details and completing tax returns on their behalf (stealing their tax refund and identity).
- Filing claims for donations made to a charity but creating false invoices or manipulating invoices to support the claims.

What is not taxable?

There are some transactions and activities that are not taxed, for example gifts, inheritances, casino or horse racing winnings. If you are required to discuss the source of wealth or source of funds with customers, they may advise their funds are from these sources in an attempt to obscure the true origin of their funds.

Tax evasion examples

Cash-based business

Customer A operates a nail salon which is a cash-intensive business. They conduct their business and personal banking with Bank A. All their EFTPOS sales are being deposited in their business bank account, but there is never any cash deposited or it is very sporadic. Over time, more and more cash is being deposited into their personal bank account.

This could indicate that they are trying to hide their cash sales and not pay tax on these.

Business using employee to evade tax

Customer B is a fulltime employee of a construction business (Company A) and is receiving regular wages each week. However, Customer B is also receiving deposits referenced with invoice numbers or Company A's details. Customer B is not a director or shareholder of Company A and has no known businesses. The invoices appear to be for building work.

This could indicate Customer B is doing work "on the side" that Inland Revenue doesn't know about, or their employer could be using them to help the employer evade tax or launder money (funds could be returned to the employer).

Wages paid in cash

Customer C operates a contracting business and has a number of staff carrying out the work for them. Customer C withdraws a significant amount of cash on a weekly basis from their bank account but there are no payments made to Inland Revenue. When questioned about the withdrawal, Customer C indicates this money is for wages.

This could indicate Customer C is paying staff "under the table" and not deducting PAYE from this or returning that to Inland Revenue, and as such is evading tax.

Business moving money offshore

Customer D operates a takeaway business. Customer D has business banking accounts and regularly deposits cash which is consistent with the industry. Recently, Customer D opened a second business account which has money transferred to it from the original bank account, as well as additional cash deposits. Funds are then transferred to an offshore bank account in Customer D's name.

This could indicate tax evasion, as moving money offshore can be a way to "hide" it from Inland Revenue or make it unavailable to pay tax debt.

Foreign currency accounts and unusual wire transfers

Customer E operates an e-Commerce business in NZ. They have multiple foreign currency accounts in different currencies. Regular high value wire transfers are received which Customer E advises are client invoices but they don't match the nature of the business. The majority of the funds are immediately transferred offshore to countries which are low tax or no tax jurisdictions. "Left over" funds are transferred into the NZD account and then withdrawn in cash or used to pay living expenses.

This could indicate Customer E is receiving money from income-earning activities on which tax should be paid, or they are trying to evade tax in another country.

International tax evasion

Customer F makes regular monthly payments from a NZ business account for consultancy services to a company in a low or no tax jurisdiction. Customer F's spouse receives regular monthly deposits in a NZ personal account from another offshore company – these deposits are said to be loan repayments but approximate the payments for consultancy services both as to timing and amounts.

This could indicate that the payments and deposits are closely connected and the companies are associated such that money may have simply passed in a "round robin" to enable Customer F to evade tax by making bogus claims for consultancy services.

TAB and online gambling

Customer G receives numerous deposits or uses their credit/debit card to pay for TAB or online gambling transactions. Customer G's known business activities appear insufficient to support these transactions, or they could be depositing cash from illegal sources to fund the transactions.

This could indicate Customer G is receiving money from an undisclosed taxable source to either fund gambling transactions or launder money.

Beneficiary – outside normal activities

Customer H is a beneficiary and receives their payment every Tuesday morning. Over the last month Customer H has received multiple cash deposits outside of their normal transactional behaviour. The deposits are made by Customer H and the funds are used for their day-to-day living expenses including rent, grocery shopping and bills. Some transfers are also made to third parties.

This could indicate tax evasion, as they are receiving a benefit and also cash deposits from an unknown source, which they may not be paying tax on.

Tax fraud examples

Multiple refunds – one bank account

Customer I operates a bank account into which multiple deposits from Inland Revenue appear. All the deposits have different references and they do not appear to be received on a consistent basis (i.e. weekly). The customer is then either spending the funds on living expenses or withdrawing these funds in cash.

This could indicate that Customer I is committing fraud by stealing identities to obtain other people's tax refunds.

GST refunds – no business

Customer J operates either a business or personal bank account. There are refunds from Inland Revenue being deposited which look like they are for GST. The bank account does not resemble an ordinary business (i.e. there are very few business transactions). The account is also being used for daily living expenses such as buying groceries or paying rent.

This could indicate that Customer J has set up a bank account with the purpose of receiving fraudulent GST refunds. To get a GST refund, business-related expenses must be incurred and ordinarily these would be paid from a bank account.

Tax jurisdictions

Commonly used low or no tax jurisdictions

Bahamas	Cook Islands	Jersey
Bermuda	Guernsey	Panama
British Virgin Islands	Hong Kong	Samoa
Cayman Islands	Isle of Man	Vanuatu

General red flags

- No payments are made to Inland Revenue as part of their ordinary course of business
- Activities outside the norms of an industry or the habits of the customer
- No cash sales when some would be expected or cash sales when they would not be expected
- Use of a personal bank account for business transactions
- Cash sales out of proportion with business/industry (e.g. deposits of \$40,000 per week for a person who says they operate a foodtruck)
- Transactions involving known low or no-tax jurisdictions
- Use of shell companies or other opaque entities
- Complex, unusual patterns of transactions or uncharacteristic transactions
- Back-to-back transactions (including loans) and multiple transfers through conduit entities or trusts
- Payment of large transaction fees to professional service providers of dubious reputation
- A lack of supporting documentation or a lack of willingness to provide supporting documentation
- Someone living beyond their apparent means without an obvious income stream
- Income or means that appear insufficient for the apparent lifestyle such as large asset purchases (real estate and high value boats/motor vehicles/art/jewellery) and frequent overseas travel
- Secretive about the type of work they do, not willing to explain sources of money
- Statements like "I'm doing this for tax purposes" or "will Inland Revenue find out?"
- Claiming the money came from non-taxable transactions (large casino winnings, lottery prizes, inheritances, etc)

- The only source of funds in the bank account is from Inland Revenue (i.e. the customer appears to be living on tax or GST refunds)
- Use of a child or relative's bank account to either hold money or transfer money rapidly
- Purchases of property or mortgages paid off quickly outside of their regular financial profile
- Financial statements are noticeably different from those of similar businesses, have not been prepared professionally, or there are two sets of financial statements.

General tax information

Tax years

For the majority of businesses, the tax year in New Zealand is from 1 April to 31 March. For example, the 2019 tax year is between 1 April 2018 to 31 March 2019.

Income tax returns are due on 7 July following the end of a tax year. For people with a tax agent (accountant) this can be extended up to 31 March the following year.

Inland Revenue numbers

An Inland Revenue number is a unique identifier used by Inland Revenue to identify individuals and businesses.

Inland Revenue numbers are 8 or 9 digits and usually present with dashes in-between, ie xx-xxx-xxx or xxx-xxx-xxx

Working for Families Tax Credits

Working for Families Tax Credits (WfFTC), previously known as Family Assistance (FAM), is a package targeted at low to middle income families with dependent children aged 18 and younger. Regular WfFTC payments are paid on a Tuesday either weekly or fortnightly.

Income tax refunds

Income tax is the tax that individuals pay on their income or businesses pay on their profits. If an individual or a business has overpaid their tax for the year, they are entitled to get a tax refund.

There are some months which have higher numbers of refunds paid. Although the bulk number of income tax refunds are paid in the months below, refunds can be generated throughout the year.

- Individuals: May to August and March/April
- Businesses: July/August and March to May

What to expect?

Usually individuals and businesses should get one tax refund per tax period. It would be unusual for one bank account to receive multiple tax refunds for various parties (unless they are an accountant or tax agent).

Payment of income tax

Provisional tax is a way of spreading out tax payments throughout the year for self-employed individuals or businesses. For income tax, you would expect between one to six income tax payments per year.

Generally provisional tax payments are due by:

- 28 August
- 15 January
- 7 May

GST

GST is a 15% tax on the sale of most goods and services in New Zealand, most goods imported into New Zealand and some specified imported services. Supplying or making a supply is a taxable activity. A taxable activity includes these goods and services:

- services such as graphic design, hairdressing, mechanical building, painting
- products such as clothing or cars, fish and chips
- experiences such as bungee jumping, skiing, kayaking, going to the movies
- professional services such as legal advice.

When can GST returns be filed?

GST returns can be filed monthly, two-monthly or six monthly. GST returns and payments are due the by 28th of the month following the end of the taxable period, except for returns with taxable periods on 30 November (due 15 January) and 31 March (due 7 May).

For example, if a GST return is for the period ending 31 May 2019, the GST return and payment will be due by 28 June 2019.

GST returns can be filed early and so you may see payments made earlier than the due dates.

PAYE

Pay As you Earn (PAYE) is the main tax that employers deduct from their employees and pay to Inland Revenue.

From 1 April 2019 employers file employment information every payday.

The tax payments for PAYE are either:

- monthly (due 20th of the following month), or
- twice a month for larger employers (due 5th and 20th of the following month).

You could see one or two PAYE payments a month.

Payment references

Payments from Inland Revenue are usually referenced in a similar format. You should expect to see deposits referenced like:

1. The words "IRD"
2. The period the payment relates to
3. An IR number 8 or 9 digits, separated with "dashes"
4. The tax type:
 - WfFTC - "TAX FAM"
 - Income Tax - "TAX INC"
 - GST - "TAX - GST"
 - PAYE - "TAX - PAY"

ie "I.R.D. 31/03/2010 123-456-789 TAX FAM"

Important

You may not always see PAYE, GST or Income tax payments for a business in a bank account. These payments could be made by a professional advisor or intermediary.



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