

An Analysis of Suspicious Transaction Reports with Possible Links to Tax Crimes

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Table of Contents

EXECUTIVE SUMMARY	2
I. INTRODUCTION	3
II. SCOPE AND METHODOLOGY.....	4
CAVEAT.....	6
III. FINDINGS and RESULTS OF ANALYSIS	6
IV. TYPOLOGIES and SUSPICIOUS INDICATORS	17
V. CONCLUSION and RECOMMENDATION	20
REFERENCES.....	22

EXECUTIVE SUMMARY

Tax crimes are designated predicate offenses to money laundering (ML). In the Philippines' Second National Risk Assessment (NRA) on Money Laundering and Terrorist Financing (TF), which covers qualitative and quantitative data from 2015 to 2016, the threat of tax crimes to ML is rated as high. One of the considerations for the high rating is the non-inclusion of tax crimes as predicate offenses to ML. In response to this, a recent amendment to Republic Act No. (RA) 9160 or the Anti-Money Laundering Act of 2001 (AMLA), as amended, which covers tax evasion as an unlawful activity, was signed into law on 21 January 2021.

Considering the recent inclusion of tax evasion as a predicate offense in the Philippines' anti-money laundering and counter-terrorism financing (AML/CTF) regime, the Anti-Money Laundering Council (AMLC) conducted a study on the potential exposure of the Philippines to tax crimes prior to the inclusion of tax evasion as a predicate offense to ML by focusing on selected suspicious transaction reports (STRs). Primarily, STRs containing "*the amount involved is not commensurate with the business or financial capacity of the client*" (SI3) as reason for filing were captured. In addition, a sampling of STRs, containing tax-related keywords, were also included regardless of the suspicious circumstance (SC) or predicate crime (PC) used by the filing covered person (CP). In total, the study considered 197,983 STRs filed by various CPs between 1 January 2018 and 30 November 2020. For the study's statistical assessment, however, certain STRs¹ were excluded to avoid skewing the data, resulting in an adjusted dataset of 182,354 STRs with an estimated value of PhP73.2 billion. The STRs used were filed by CPs supervised or regulated by the Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), Securities and Exchange Commission (SEC), or the Appropriate Government Agencies (AGAs) for casinos.

The study also cites various literature in relation to tax crimes, including how they relate to other financial crimes. Among these are information lifted from publications of the Organization for Economic Co-operation and Development (OECD), one of which highlighted the country's strength in cooperating internationally with tax authorities to combat tax crime.

The assessment revealed that banks, investment houses, and insurance companies are the preferred channels in moving high-value proceeds with possible links to tax crimes. For lesser value proceeds, electronic money issuers (EMIs), pawnshops, and money service businesses (MSBs) are generally used. Essentially, BSP-supervised institutions overwhelmingly controlled the STRs associated with tax crimes. Cash transactions (e.g., cash deposits, withdrawals) dominate the different suspicious transaction types, which is consistent with its inherent risk for its tendency to obscure the audit trail. Moreover, transaction net flow is measured at PhP27.5 billion. This was derived by deducting total outflows (PhP19.6 billion) from total inflows (PhP47.1 billion), while excluding those transactions categorized as neutral (PhP6.4 billion). The netted-out figure may represent the remaining proceeds generated from various SCs/PCs with possible links to tax crimes.

Aside from SI3, various suspicious circumstances, such as "*there is no underlying legal or trade obligation, purpose or economic justification*" (SI1) and "*the transaction is similar, analogous, or identical to any of the foregoing*" (SI6) dominate the STRs containing tax-related keywords in the narratives. As to PCs, corruption-related (i.e., graft and corrupt practices, plunder, bribery and corruption of public officers), and fraud-related (i.e., fraudulent practices and other violations under the Securities Regulations Code, swindling, Electronic Commerce Act violations) emerged as top reasons for filing STRs with possible links to tax crimes.

The study highlights various typologies based on the significance of the amounts involved and/or frequency of reports on the suspicious activity/scheme. These include activities involving unauthorized investment-taking, extensive use of substantial cash, and unsubstantiated transactions based on income source (e.g., salary, business) of various subjects (e.g., self-employed, employees, politically exposed persons [PEP]), among others.

The study concludes that the inclusion of tax evasion as a predicate offense to money laundering will not just support the country's adherence to international or global standards but will further enhance domestic inter-

¹ STRs filed using the ZSTR code

agency cooperation in combatting the same. Aside from addressing one of the issues of the high ML threat rating indicated in the Philippines' Second NRA (previously not covered by the AMLA), the anticipated domestic inter-agency sharing between the AMLC and Bureau of Internal Revenue (BIR) will possibly contribute to the increase in the recovery of proceeds with links to tax crimes.

Considering the conditions laid out in the inclusion of tax evasion under the AMLA, as amended, and its inherent link to other financial crimes, aside from using the PC on tax evasion, the AMLC may still encourage CPs to file STRs with possible links to tax crimes with SI3 and other associated financial crimes or PCs (e.g., corruption, fraud, IP violations, among others) as reason/s for filing in combination with tax-related keywords in the narrative (e.g., tax evasion, tax fraud). The STR filings of various CPs and subsequent sharing of the same with AMLC internal investigators and externally with tax authorities will bolster the country's proactive stance in combatting financial crimes, including tax evasion.

The study recommends sharing the results with various stakeholders, such as internal AMLC departments/groups, and external relevant supervising authorities, tax authorities, law enforcement agencies, and AMLC Public-Private Program Partners. A redacted version is also recommended to be published on the AMLC website.

I. INTRODUCTION

In the Financial Action Task Force's (FATF's)² "Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems," tax crime (related to direct taxes or indirect taxes) is listed as among the designated categories of offenses.ⁱ Tax crimes negatively impact the government's ability to provide for the basic welfare of its populace or the society in general, and the implementation of major programs or projects funded by the government. The threat of tax crimes to ML is considered as high risk in various jurisdictions, including the Philippines. In the Second NRA,ⁱⁱ which covers qualitative and quantitative data from 2015 to 2016, the threat of tax crimes to ML is rated as high. Primary considerations for the high rating are non-inclusion of tax crimes as predicate offenses to ML, considerable proceeds generated from tax crimes, and the low conviction and recovery of proceeds, despite the efforts of the BIR.ⁱⁱⁱ In response to this, a recent amendment to RA 9160 or the AMLA, as amended, was signed into law on 21 January 2021. The recent amendment per RA 11521, titled "An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose of Republic Act No. 9160, Otherwise Known as the "Anti-Money Laundering Act of 2001," as Amended," expanded the list of unlawful activities covered by the AMLA. One of the recent inclusions are violations of Section 254 of Chapter II, Title X of the National Internal Revenue Code of 1997, as amended (Tax Code). This section of the Tax Code pertains to the "Attempt to Evade or Defeat Tax" or tax evasion.

In the Philippines, the AMLC is the central authority for AML/CTF purposes and the country's Financial Intelligence Unit (FIU) tasked to implement the AMLA, as amended.^{iv}

As previously stated, the recent amendment to the AMLA includes tax evasion as a predicate offense to ML. Section 254 of Chapter II, Title X of the Tax Code defines "Attempt to Evade or Defeat Tax" as "any person who willfully attempts in any manner to evade or defeat any tax imposed under this Code or the payment thereof shall, in addition to other penalties provided by law, upon conviction thereof, be punished by a fine not less than Five Hundred Thousand Pesos (PhP500,000) but not more than Ten Million Pesos (PhP10,000,000) and suffer imprisonment of not less than six (6) years but not more than ten (10) years: Provided, That the conviction or acquittal obtained under this Section shall not be a bar to the filing of a civil suit for the collection of taxes." Said inclusion of tax evasion under the AMLA is subject to the following conditions:

² The Financial Action Task Force (FATF) is the global money laundering and terrorism financing watchdog. The FATF has developed the FATF Recommendations or FATF Standards, which ensure a coordinated global response to prevent organized crime, corruption, and terrorism. <https://www.fatf-gafi.org/about/>, accessed on 12/2/2020.

1. Where the deficiency basic tax due in the final assessment is in excess of Twenty-Five Million Pesos (PhP25,000,000) per taxable year for each type covered and there has been a finding of probable cause by the competent authority;
2. That there must be a finding of fraud, willful misrepresentation, or malicious intent on the part of the taxpayer; and
3. That in no case shall the AMLC institute forfeiture proceedings to recover monetary instruments, property, or proceeds representing, involving, or relating to a tax crime, if the same has already been recovered or collected by the BIR in a separate proceeding.

II. SCOPE AND METHODOLOGY

This study cites relevant literature to tax crimes, including how these relate to other financial crimes. It also provides a macro assessment through the descriptive analysis of STRs filed by various CPs in relation to SI3 or “the amount involved is not commensurate with the business or financial capacity of the client,” covering 1 January 2018 to 30 November 2020. Also included is a sampling and brief analysis of STRs, relating to other predicate crimes (PCs) and suspicious circumstances (SCs) filed in the same period, which contain tax-related keywords in the narrative.

The study shall provide an assessment of the potential exposure of the Philippines to tax crimes, prior to the inclusion of tax evasion as a predicate offense to ML by focusing the collection process on the STRs, as stated in the preceding paragraph. A total of 197,983 STRs filed by various CPs between 1 January 2018 and 30 November 2020 were considered in the study. Of this figure, 181,556 STRs (92%) relate to SI3 and the remaining 16,427 STRs (8%) are linked to other PCs/SCs. These STRs were filed by CPs supervised or regulated by the BSP, IC, SEC, or AGAs for casinos.

SI3 as the reason for filing is primarily considered in selecting STRs. A total of 181,556 STRs filed by various CPs between 1 January 2018 and 30 November 2020 relate to SI3. The transaction codes used in filing STRs under SI3 are grouped into two (2) broad categories as shown in Table 1:

SI3 - STR Transaction Code Category	Volume of STRs	PhP Value of STRs (in billions)
STRs with Specific Transaction Codes	167,364	69.89
Generic-Coded STRs (ZSTRs)	14,192	62,388.88
Grand Total	181,556	62,458.77

Table 1: Total STRs filed under SI3, covering 1 January 2018 to 30 November 2020

In addition, STRs filed under other PCs/SCs that possess tax-related keywords (i.e., tax, taxation, taxable, tax evasion) in the narrative were also measured, essentially for statistical purposes. This is followed by minor discussions on possible linkages of specific PCs/SCs to tax crimes. Similar to SI3, transaction codes used in filing the STRs under various PCs/SCs are broadly categorized into two (2) groups as shown in Table 2:

Other PCs/SCs - STR Transaction Code Category	Volume of STRs	PhP Value of STRs (in billions)
STRs with Specific Transaction Codes	14,990	3.27
Generic-Coded STRs (ZSTRs)	1,437	0.10
Grand Total	16,427	3.37

Table 2: Total STRs filed under other PCs/SCs with tax-related keywords, covering 1 January 2018 to 30 November 2020

STRs with specific transaction codes clearly describe the type of transaction (e.g., withdrawal, deposit, remittance) associated with the amount reported, making it statistically feasible to measure. On the contrary, the nature of transactions associated with STRs, which utilized the generic STR code (ZSTR), may be interpreted in various ways, depending on the description provided in the narrative. This poses a challenge in properly tagging the type of transaction associated with these STRs. CPs generally use the ZSTR code in filing STRs based on suspicious triggers (e.g., intelligence received, adverse news), despite not having recent or actual monetary transactions with the subject.

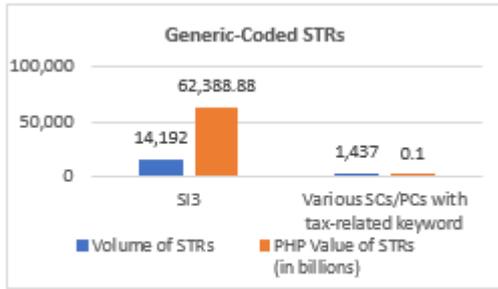


Figure 1. ZSTR-coded STRs captured in the study covering 1 January 2018 – 30 November 2020

As shown in Figure 1, a total of 14,192 ZSTRs, valued at PhP62.39 trillion,³ were filed under SI3, while 1,437 ZSTRs, valued at PhP101 million, were filed in relation to other PCs/SCs. To avoid skewing the data, these are excluded in the statistical analysis, but the narratives are still considered in the typologies section of the study. Excluding the ZSTRs, Table 3 shows the total volume and Philippine Peso (PhP) value of the STR dataset:

STRs with Specific Transaction Codes	Volume of STRs	PhP Value of STRs (in billions)
SI3 – amount involved is not commensurate with the business or financial capacity of the client	167,364	69.89
Other PCs/SCs with tax-related keywords	14,990	3.27
Grand Total	182,354	73.16

Table 3: STR dataset used for statistical analysis, covering 1 January 2018 to 30 November 2020

A total of 182,354⁴ STRs, estimated at PhP73.2 billion,⁵ represents the STR dataset that will be used in analyzing patterns and trends with possible links to tax crimes. Volume-wise, the STR distribution between SI3 and other PCs/SCs, after exclusion of ZSTR, remains constant at 92% and 8%, respectively. In terms of PhP value, SI3 accounts for 96% (PhP69.89 billion), while other PCs/SCs with tax-

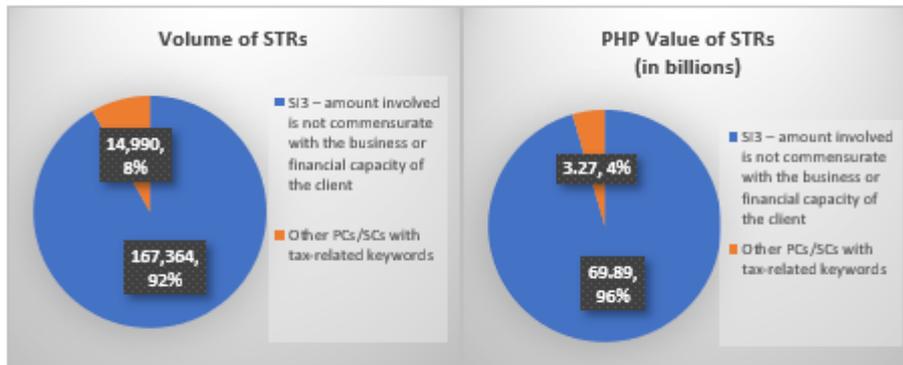


Figure 2. Adjusted STRs dataset covering 1 January 2018 – 30 November 2020

related keywords accounts for 4% or PhP3.27 billion.

In analyzing STR data, the transaction and upload dates is reduced to year-level tagging, and PhP is used as reference currency across the entire dataset. To explore the types of CPs generally used as channels for moving funds with possible links to tax crimes, the volume and PhP value are categorized per CPs' industry classification, and broadly by supervising/regulating authority (SA) of each industry class. The different transaction types are reclassified into broader categories for easier aggregation. Analysis of the transaction types determines the degree of exposure of associated financial products in moving suspicious proceeds with possible links to tax crimes.

³ Value is largely attributed to thirteen (13) generic coded STRs (ZSTR), totaling PhP62.38 trillion. These are merely attempted transactions that generally involve the presentation of spurious or invalid documents (e.g., letters of credit, bank check), which were either returned or dishonored but the exorbitant values were used in filing the STRs. Other reasons pertain to purported entry of excessively valued remittances that never materialized.

⁴ Excluding ZSTRs, 182,354 STRs (total volume of statistically considered STRs on SI3 and various SCs/PCs with tax-related keywords) represent 12% of the total STRs (1,569,954 STRs) filed by CPs between 1 January 2018 and 30 November 2020 on various SCs and PCs covered in the study.

⁵ Excluding ZSTRs, PhP73.2 billion (total value of statistically considered STRs on SI3 and various SC/PCs with tax-related keywords) account for 8.5% of the total PhP value (PhP861.6 billion) of all STRs filed by CPs, covering 1 January 2018 to 30 November 2020 on various SCs and PCs in the study. The base figure (PhP861.6 billion) excludes an outlier transaction that involves a single unauthorized electronic cash card purchase valued at PhP4.40 quadrillion. The outlier is likely misreported by the CP, since the PhP amount and old account number fields of the STR showed closely corresponding values.

The succeeding section highlights the country's participation in the OECD's standard-setting and best practices work on tax crimes.

Organisation for Economic Co-operation and Development (OECD)

The subsequent discussions are lifted from the OECD's⁷ publication, "APEC/OECD (2019), *Combatting Tax Crimes More Effectively in APEC Economies*, Organisation for Economic Co-operation and Development and Asia-Pacific Economic Cooperation."^v The Philippines was among the 17 participating APEC⁸ countries in the conduct of OECD's standard-setting and best practices work on tax crimes. The OECD study focuses on the following:

- (1) 10 Global Principles for Fighting Tax Crime,^{vi} which includes: ensuring tax offenses are criminalized; having effective powers to freeze, seize, and confiscate assets; making tax crimes a predicate offense for ML, among others.
- (2) Enhancing of domestic inter-agency cooperation to combat tax crime. The report cites that the intrinsic links between tax crimes and other financial crimes are well documented. This means that an agency-by-agency approach is not sufficient. Financial crimes will often cross multiple agencies' mandates, and governments must therefore adopt integrated models for cooperation.
- (3) Exchange of information between tax authorities and enhancing of international co-operation to combat tax crime. The report cites that in a borderless world, criminals will have an advantage over law enforcement by quickly moving beyond national borders, unless jurisdictions work together to level the playing field. The OECD has published a catalogue of the main legal agreements^{vii} available for international cooperation. The report further cites that the Philippines is one of the APEC economies reviewed as compliant or largely compliant by the Global Forum⁹ for Exchange of Information on Request.
- (4) Prohibition of tax deductions for bribe payments. The OECD report cites relevant conventions and recommendations explicitly advising jurisdictions to prohibit tax deductions for bribe payments. It also noted that while majority of countries do not prevent tax administration from examining the tax affairs of persons convicted of corruption, most countries appear to lack the operational frameworks to ensure that this occurs in practice. This section of the OECD report also mentions the previous report jointly prepared in 2018 by the World Bank Group's Governance Global Practice and the OECD Centre for Tax Policy and Administration, titled "Improving Co-operation between Tax Authorities and Anti-Corruption Authorities in Combating Tax Crime and Corruption."^{viii}

The OECD report also mentioned capacity building initiatives that focus on ensuring that developing countries have the tools they need to implement the outlined international standards and best practices. The OECD offers multilateral capacity building through its International Academy for Tax Crime Investigation ("the Academy"). APEC Economies are already actively involved in the Academy program, with over 80 participants from nine (9) APEC Economies having participated in a training course to date. APEC Economies are also valued supporters of the initiative, with Australia, Canada, New Zealand, the Philippines, and the United States providing in-kind

⁷ The Organisation for Economic Co-operation and Development (OECD) is an international organization composed of 37 countries that works to build better policies for better lives. It is an intergovernmental organization that works on establishing evidence-based international standards and finding solutions to a range of social, economic and environmental challenges. From improving economic performance and creating jobs to fostering strong education and fighting international tax evasion, OECD provides a unique forum and knowledge hub for data and analysis, exchange of experiences, best-practice sharing, and advice on public policies and international standard-setting. <http://www.oecd.org/about/>, accessed on 12/2/2020.

⁸ The Asia-Pacific Economic Cooperation (APEC) is a regional economic forum established in 1989 to leverage the growing interdependence of the Asia-Pacific. APEC's 21 members, which includes the Philippines, aim to create greater prosperity for the people of the region by promoting balanced, inclusive, sustainable, innovative, and secure growth and by accelerating regional economic integration. <https://www.apec.org/About-Us/About-APEC>, accessed on 3/20/2021.

⁹ The Global Forum on Transparency and Exchange of Information for Tax Purposes, with 162 member countries including the Philippines, is the leading international body working on the implementation of global transparency standards around the world. <https://www.oecd.org/tax/transparency/who-we-are/members/>, accessed on 3/20/2021.

support through the provision of expert trainers to teach the classes. The OECD website also provides course dates of the Academy.^{ix}

The OECD also published various papers in combatting tax crimes, which include but are not limited to the following:

- (1) OECD Money Laundering Awareness Handbook for Tax Examiners and Tax Auditors (2009);^x
- (2) OECD Bribery and Corruption Awareness Handbook for Tax Examiners and Tax Auditors (2013);^{xi}
- (3) OECD (2017), Effective Inter-Agency Co-operation in Fighting Tax Crimes and Other Financial Crimes - Third Edition, OECD Publishing, Paris;^{xii} and
- (4) OECD (2020), Tax Crime Investigation Maturity Model, OECD, Paris.^{xiii}

Other Relevant Information

The coverage of tax crimes under the AMLA, as amended, appears to encompass both tax evasion and tax fraud. The pertinent section in the Tax Code, which was incorporated as an unlawful activity under the AMLA, speaks of tax evasion. Further, one of the conditions laid out in its inclusion under the AMLA, particularly *“that there must be a finding of fraud, willful misrepresentation, or malicious intent on the part of the taxpayer,”* also relates to tax fraud.

Based on the readings, “tax evasion is defined as an illegal activity in which a person or entity deliberately avoids paying a true tax liability. It can either be the illegal non-payment or underpayment of actual tax liabilities due. Those caught evading taxes are generally subject to criminal charges and substantial penalties.”^{xiv} On the other hand, “tax fraud occurs when an individual or business entity willfully and intentionally falsifies information on a tax return to limit the amount of tax liability. Tax fraud essentially entails cheating on a tax return in an attempt to avoid paying the entire tax obligation. Examples of tax fraud include claiming false deductions; claiming personal expenses as business expenses; and not reporting income. Tax evasion or illegally avoiding payment of taxes owed may be construed as an example of tax fraud.”^{xv}

Under the Tax Code of the Philippines, examples of tax evasion include failure to pay taxes, non-filing of appropriate tax returns, over-declaration of expenses/deductions, under-declaration of income, hiding or transferring income, claiming of personal expenses as business expenses (for tax shield), failure to remit withholding taxes, failure to register with the BIR, maintaining of more than one book of accounts, fake entries in financial books and records, use of fake accountable forms, among others.^{xvi} In essence, given the above definitions of tax evasion and tax fraud, the terms may be used interchangeably under the Philippine setting.

While it is a given that failure to report legally obtained income constitutes tax evasion, one interesting aspect of this interpretation is that failure to report illegally obtained income also constitutes the same crime. The definition of gross income (“all income derived from whatever source”), except those explicitly provided for under Section 32 of Chapter VI of the Tax Code, is broad enough to encompass any income that flows into the taxpayer, whether legally or illegally obtained. This could mean that proceeds generated from other unlawful activities, once established to have been amassed by a taxpayer but unreported for tax purposes, may also be prosecuted for tax evasion.

The following sections describe the findings on the STRs filed by various CPs, covering 1 January 2018 to 30 November 2020. A total of 182,354 STRs filed in relation to SI3 and various PCs/SCs with tax-related keywords, estimated at PhP73.2 billion, represents the STR dataset that will be used in analyzing patterns and trends with possible links to tax crimes.

STR ANALYSIS
THE AMOUNT INVOLVED IS NOT COMMENSURATE WITH THE BUSINESS OR FINANCIAL CAPACITY OF THE CLIENT (SI3)

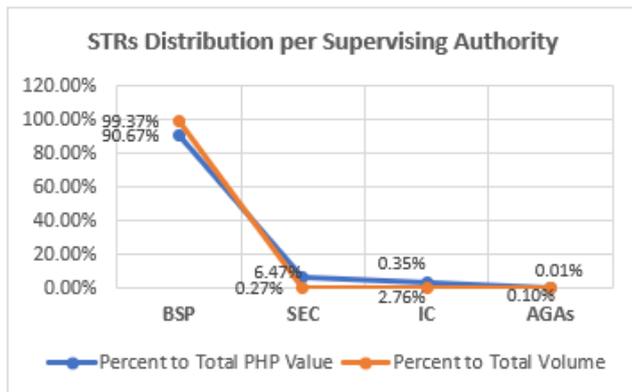


Figure 3a. SI3 STRs per Supervising Authority Covering 1 Jan. 2018 – 30 Nov. 2020

regulated entities at 0.10% (Php70.8 million).

There is an increasing trend in STR filings associated with SI3 from 35,786 in 2018 to 77,574 in 2020. Most originated from banks, with commercial banks, and savings and mortgage banks, respectively, accounting for 64.73% (108,338 STRs) and 3.64% (6,089 STRs) of the total STRs. Further, the respective share to the total STRs filed in relation to SI3 of pawnshops, EMLs, and MSBs are 20.24% (33,874 STRs), 6.99% (11,697 STRs), and 3.4% (5,694 STRs).

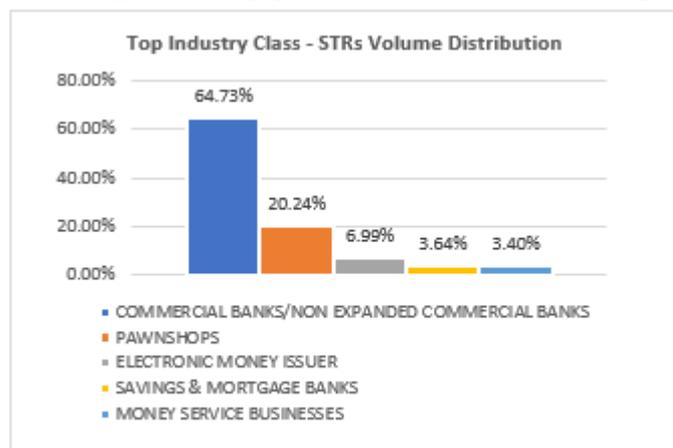


Figure 3b. SI3 STRs per industry classification covering 1 Jan. 2018 – 30 Nov. 2020

Correspondingly, the PHP value of STRs associated with SI3 showed an increasing trend from Php18 billion in 2018 to Php29.4 billion in 2020. Banks, particularly commercial banks, and savings and mortgage banks, largely account for the total Php value at 70.62% (Php49 billion) and 17.77% (Php12.4 billion), respectively. Investment houses also account for a substantial share of 5.95% (Php4.2 billion), followed by insurance companies with 2.76% (Php1.9 billion). MSBs, pawnshops, and EMLs landed on the fifth to seventh spots, respectively, accounting for 0.72% (Php503 million), 0.69% (Php483 million), and 0.54% (Php378 million) of the total Php value associated with SI3.

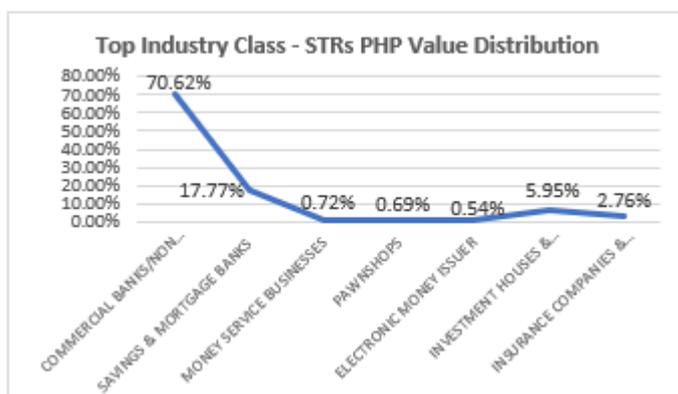


Figure 3c. SI3 STRs per industry classification covering 1 Jan. 2018 – 30 Nov. 2020

The emergence of banks as top filers, both in volume and PHP value, is expected, considering that banks have the capacity to facilitate high-value transfers (e.g., deposits, withdrawals, remittances, investments) and aggregate total relationship balance of its clients/groups. Banks also generally employ stringent know-your-customer (KYC) procedures and enhanced due diligence (EDD) process. Bank-client relationship likely involves a series of transactions, which may be assessed for abnormal patterns or behavior. Like banks, investment houses and insurance companies also engage in high-value transactions with customers and mandate submissions of KYC documents. As for EMLs, these CPs leverage on technology in tracing abnormalities in the volume and value of funds transacted by customers through its platform. MSBs and pawnshops, given their accessibility and cash-intensive nature, are widely used for small-value transactions.

Figures 3b and 3c show that banks, investment houses, and insurance companies are the preferred channels in moving high-value proceeds with possible links to tax crimes. For smaller values, EMIs, pawnshops, and MSBs are generally used.

A total of 66 broadly categorized transaction types are identified among STRs associated with SI3. Table 4 presents the top 25 transaction types in terms of PHP value, while the remaining 41 are grouped as “others.”

Cash deposits dominate the share of STRs relating to SI3, both in volume and PHP value, respectively, accounting for 30.38% (50,841 STRs) and 36.44% (PhP25.5 billion). Its corresponding outflow transaction—cash withdrawal—is positioned at the fifth spot, both in volume and PHP value, with 8.83% (14,771 STRs) and 6.55% (PhP4.6 billion), respectively. Statistics on cash deposits and withdrawals are consistent with the inherent risk of cash transactions for ML purposes, as transacting in cash tends to obscure the audit trail. Determining the ultimate source (of deposit) and destination (of withdrawal) becomes challenging.

Transaction Types	Volume Count	Percent to Total Volume	PHP Value (in millions)	Percent to Total PHP Value
DEPOSIT - CASH	50,841	30.38%	25,465.55	36.44%
DEPOSIT - CHECK	4,875	2.91%	12,297.67	17.60%
INTER-ACCOUNT TRANSFERS (SAME BANK)	28,198	16.85%	5,606.95	8.02%
CHECK CLEARING	4,125	2.46%	5,436.21	7.78%
WITHDRAWAL - CASH	14,771	8.83%	4,578.39	6.55%
ENCASHMENT	3,246	1.94%	2,500.44	3.58%
INWARD REMITTANCE (INTERNATIONAL)	12,400	7.41%	2,469.13	3.53%
MONEY MARKET INSTRUMENT PAYMENT	210	0.13%	2,143.45	3.07%
MONEY MARKET INSTRUMENT PLACEMENT	100	0.06%	1,440.15	2.06%
INWARD REMITTANCE (DOMESTIC)	19,578	11.70%	1,212.46	1.73%
OUTWARD REMITTANCE/TT (INTERNATIONAL)	2,529	1.51%	918.08	1.31%
PURCHASE OF LIFE INSURANCE POLICY	257	0.15%	842.60	1.21%
PARTIAL FUND WITHDRAWAL - INSURANCE	146	0.09%	651.42	0.93%
PURCHASE OF MC/CC/DD/TC	60	0.04%	604.63	0.87%
OUTWARD REMITTANCE/TT (DOMESTIC)	15,013	8.97%	529.93	0.76%
RETURNED CHECK	212	0.13%	388.92	0.56%
CREDIT CARD PURCHASES/AVAILMENTS	1,399	0.84%	380.93	0.55%
SELL FX	210	0.13%	331.85	0.47%
MONEY MARKET INSTRUMENT PRETERMINATION	29	0.02%	267.12	0.38%
FULL FUND WITHDRAWAL - INSURANCE	70	0.04%	254.62	0.36%
TIME DEPOSIT PLACEMENT	26	0.02%	197.99	0.28%
BUY SECURITIES	31	0.02%	161.29	0.23%
BUY SOVEREIGN BONDS	16	0.01%	149.05	0.21%
BUY MUTUAL FUND INVESTMENTS/SHARES	23	0.01%	144.70	0.21%
PAY CASH SURRENDER VALUE (CSV)/EQUITY VALUE	50	0.03%	91.81	0.13%
OTHERS	8,949	5.35%	826.56	1.18%
Grand Total	167,364	100%	69,891.89	100%

Table 4: Top 25 transaction types based on PHP Value of STRs relating to SI3 covering 1 Jan. 2018 – 30 Nov. 2020

Check deposits is at the second spot in terms of PHP value with 17.6% share (PhP12.3 billion). Its corresponding outflow transactions—check-clearing and encashment—are at fourth and sixth at 7.78% (PhP5.4 billion) and 3.58% (PhP2.5 billion), respectively.

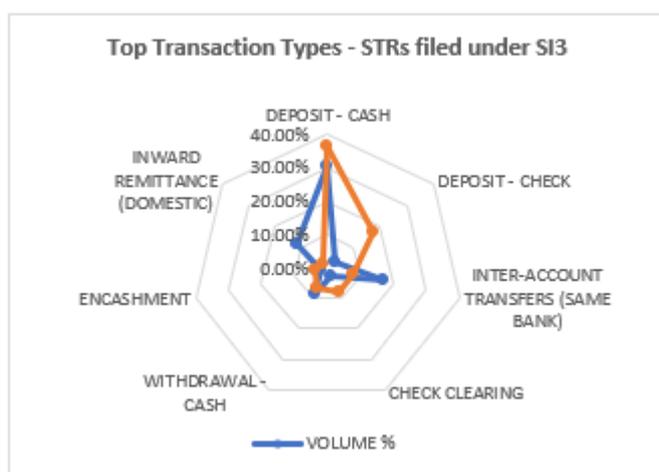


Figure 4. Top Transaction Types – STRs on SI3 covering 1 Jan. 2018 – 30 Nov. 2020

Inter-account transfers, while only placing 10th in terms of PHP value at 1.73% (PhP1.2 billion), are at third in terms of volume at 11.70% (19,578 STRs). Substantial flow is likewise seen on investment-related transactions (i.e., money market placement/payment or pretermination; insurance purchase/partial or full fund withdrawal; purchase of securities, bonds, mutual funds; time deposit placement) and other remittance-related transactions.

The foregoing transaction types that dominate the STRs relating to SI3 may also lead to determining the type of products and services utilized in moving suspicious proceeds with possible links to tax crimes. In terms of product

type, included are checking/savings account (CASA) products, time deposit products, investment, and insurance-related products. In terms of services, CPs with deposit-taking and remittance facilities are heavily used.

In order to measure the possible net flow of the STRs associated with SI3, different transaction types are categorized into inflow, outflow, and neutral transactions. Determination of transaction flows also considered the nature of the products involved (e.g., CASA transactions, investment-related, remittance-related, among others) and the perceived flow of the transaction as described in the AMLC Registration and Reporting Guidelines. Examples of categorization are as follows: (1) inflow – deposit, inward remittance, insurance payments, investment placement, loan availments, etc.; (2) outflow – withdrawal, encashments, check clearing, outward remittance, insurance claims/redemptions, termination of investments, loan payments, etc. The net flow is computed by deducting total outflows from inflows, while neutral transactions (i.e., same bank transfers, foreign exchange) are also shown but not considered in the computation of net flow. As shown in Figure 5a, total inflows account for 58% (96,482 STRs) and 64.5% (PhP45.11 billion) of the total volume and PhP value, respectively, of transactions associated with SI3. Outflows account for 25% (42,403 STRs) and 26.9% (PhP18.79 billion), while neutral transactions are at 17% (28,479 STRs) and 8.6% (PhP5.99 billion). Figure 5b shows a net flow of PhP26.3 billion, which may indicate that as of the period covered, majority of the proceeds perceived to have links with tax crimes remain in the accounts or various instruments held and maintained by possible offenders with various CPs. The netted-out figure may also represent the remaining proceeds generated from suspicious activities in relation to SI3.

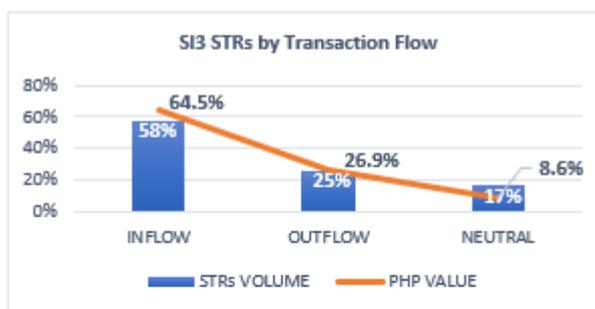


Figure 5a. SI3 STRs by transaction flow covering 1 Jan. 2018 – 30 Nov. 2020

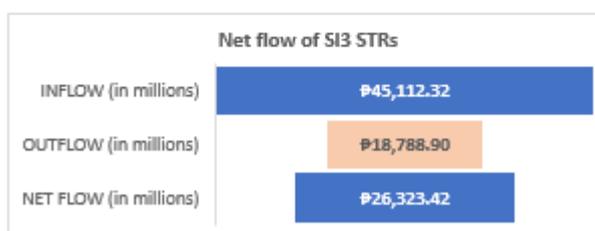


Figure 5b. SI3 STRs net flow covering 1 January 2018 – 30 November 2020

STRs filed under SI3 are grouped into eight (8) PhP-value brackets¹⁰ as shown in Table 7. About 0.26% (435 STRs) of the total STRs have nominal values, ranging from PhP1 or less.

Transaction Amount	Volume		Value	
	Count	Share to Total	PhP Value (in millions)	Share to Total
Nominal	435	0.26%	0.00	0.00%
Below PhP10,000	68,585	40.98%	221.16	0.32%
PhP10,000 to less than PhP100,000	53,706	32.09%	1,720.18	2.46%
PhP100,000 to less than PhP500,000	25,808	15.42%	5,843.54	8.36%
PhP500,000 to less than PhP1 million	7,404	4.42%	4,786.16	6.85%
PhP1 million to less than PhP10 million	10,402	6.22%	26,566.64	38.01%
PhP10 million to less than PhP25 million	701	0.42%	9,441.70	13.51%
PhP25 million and above	323	0.19%	21,312.49	30.49%
Grand Total	167,364	100.00%	69,891.89	100.00%

Table 5: Breakdown of STRs relating to SI3, covering 1 January 2018 to 30 November 2020, by Transaction Amount Range

¹⁰ The above brackets are categorized into nominal transactions (first bracket), lesser valued amounts in multiples of 1,000 and 10,000 (second and third brackets, respectively), multiples of 100,000, covering below and above the 500,000 threshold for covered transaction reports (fourth and fifth brackets, respectively), multiples of 1,000,000 (sixth bracket), multiples of 10,000,000 to less than the threshold covered in the inclusion of tax evasion under the AMLA, as amended (seventh bracket), and finally the baseline coverage of tax evasion for possible ML investigation (eighth bracket).

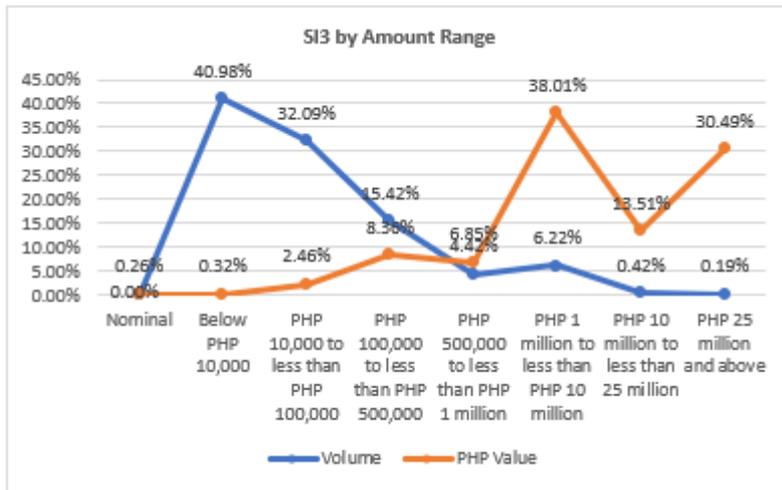


Figure 6a. SI3 amount range covering 1 January 2018 – 30 November 2020

Below Php10,000

Table 5 and Figure 6a show that 40.98% of the STRs (68,585 STRs) refer to small-value transactions (i.e., below Php10,000) estimated at Php221 million (0.32%). Notable transactions pertain to several incoming domestic and international remittances, and outgoing domestic remittances received or sent by individuals, profiled as liaison officers of a software solutions company, and allegedly performing gambling operations using an expired license.

The STRs having similar subject profiles and surrounding circumstances under this category totaled 11,258 with an estimated value of Php42.7 million.

Php10,000 to less than Php100,000

This range accounts for 32.09% (53,706 STRs) of the total STR volume with an estimated value of Php1.72 billion (2.46%). Like the STRs noted in the preceding category, several remittance-related STRs on individuals allegedly associated with gambling operations are also present in this bracket. Certain individuals, whose profiles do not support the volume and value of transactions, are the subjects of suspicion in 1,825 STRs with an estimated value of Php37.65 million under this category.

Php100,000 to less than Php500,000

This bracket accounts for 15.42% (25,808 STRs) of the total STR volume with an estimated value of Php5.84 billion (8.36%). Substantial STRs totaling 978 with an estimated value of Php246 million, under this bracket, were filed on an individual engaged in various businesses (i.e., hardware, used clothing, mangoes/rice trading). Deposits, usually in small denominations, are normally done by representatives who either provided conflicting reasons or are unaware of the source of funds.

Php500,000 to less than Php1 million

This category accounts for 4.42% (7,404 STRs) of the total STR volume with an estimated value of Php4.78 billion (6.85%). Significant STRs totaling 415 with an estimated value of Php259.73 million, under this category, were filed on an individual engaged in hardware supply and used clothing business. The CP surmised that the legitimacy of sources cannot be verified.

Php1 million to less than Php10 million

This group only accounts for 6.22% (10,402 STRs) of the total STR volume associated with SI3, as shown in Figure 6a. In terms of value, however, this bracket topped the chart with a 38.01% share or Php26.6 billion. Notable STRs involve a foreign national engaged in wholesale/retail of electronic devices and hardware supply. A total of 409 STRs were filed on the subject under this category with an estimated value of Php1.22 billion. Despite the huge flow of funds, the CP noted that the income tax return (ITR) submitted by the subject only reflected minimal amounts of sales (low six-figure) and net income (low five-figure).

Php10 million to less than Php25 million

This range only accounts for 0.42% (701 STRs) of the total STR volume associated with SI3. The total value, however, ranked third with a 13.51% share, amounting to Php9.4 billion. Eighteen (18) STRs with an estimated value of

Php251.48 million under this category were filed on a subject whose declared sources of income (i.e., teaching profession, small business) do not correspond to the value of transactions.

PhP25 million and above

This bracket has the least share of 0.19% (323 STRs) to the total STR volume associated with SI3, but its total value placed second with a 30.49% share or PhP21.3 billion, as shown in Figure 6b. Noteworthy are 63 STRs with an estimated value of PhP6.2 billion involving two (2) entities with similar names, who declared investments and sale of property as sources of income. Months after account-opening, the entities made a series of high-value cash deposits. Both entities are newly established, and the nature of business is not considered cash-intensive. Another set of STRs involve certain PEPs, who declared business as the source of funds. Various transactions totaling PhP1.56 billion were deemed as not commensurate with the financial capacity of the subjects.

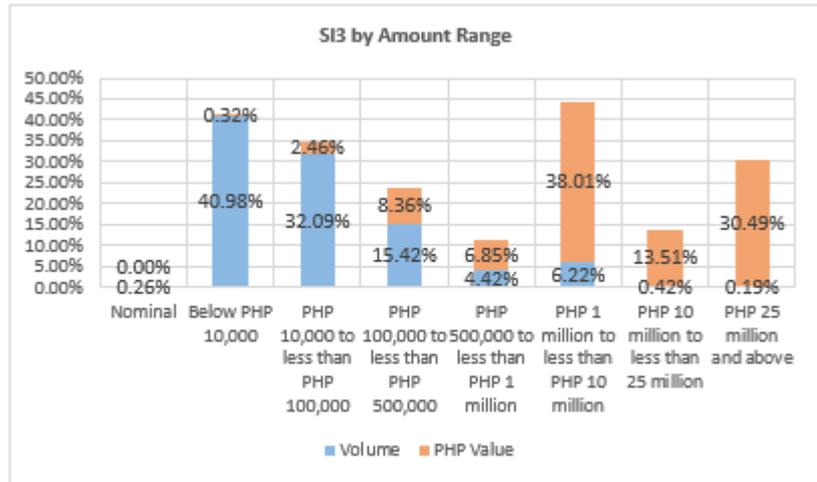


Figure 6b. SI3 amount range covering 1 January 2018 – 30 November 2020

STRs ANALYSIS

OTHER SUSPICIOUS CIRCUMSTANCES (SCs) AND PREDICATE CRIMES (PCs)

The OECD, in its 2019 report, titled “*Combating Tax Crimes More Effectively in APEC Economies*,” cited that the intrinsic link of tax crimes to other financial crimes are well documented. The inherent connection may be based on the premise that “any monetary benefit received from an activity, illegal or otherwise, normally becomes part of one’s taxable income.”^{xvii} In this regard, this section shall provide an overview of STRs associated with other PCs/SCs containing tax-related keywords (i.e., tax, taxable, taxation) in the narrative. The statistically considered STRs filed by various CPs, covering 1 January 2018 to 30 November 2020, totaled 14,990 with an estimated value of PhP3.27 billion.

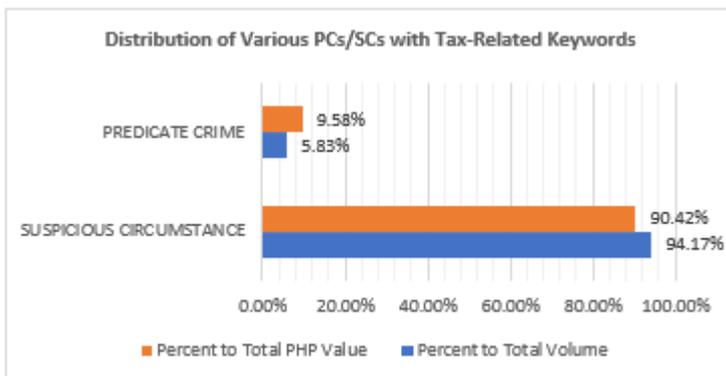


Figure 7. STRs on various PCs/SCs with tax-related keywords covering 1 Jan. 2018 – 30 Nov. 2020

2020.

Figure 7 shows that various SCs dominated the STRs with tax-related keywords in the period covered, both in volume at 14,116 STRs (90.42%) and in PhP value at PhP2.6 billion (94.17%). STRs with tax-related keywords are further grouped according to the SC or PC used by CPs as reason for filing. Table 6 shows the yearly volume and PHP value of STRs relating to various PCs/SCs (with tax-related keywords in the narrative) filed from 1 January 2018 to 30 November

Other PCs/SCs with Tax-Related Keywords	Total Volume	Percent to Total Volume	Total PhP Value (in millions)	Percent to Total PhP Value
SUSPICIOUS CIRCUMSTANCE	14,116	94.17%	2,959.08	90.24%
THERE IS NO UNDERLYING LEGAL OR TRADE OBLIGATION, PURPOSE OR ECONOMIC JUSTIFICATION (SI1)	11,399	76.04%	2,015.08	61.57%
THE TRANSACTION IS SIMILAR, ANALOGOUS OR IDENTICAL TO ANY OF THE FOREGOING (SI6)	2,503	16.70%	767.28	23.45%
THERE IS A DEVIATION FROM THE CLIENT'S PROFILE/PAST TRANSACTIONS (SI5)	106	0.71%	93.54	2.86%
THE TRANSACTION IS STRUCTURED TO AVOID BEING REPORTED (SI4)	73	0.49%	26.38	0.81%
THE CLIENT IS NOT PROPERLY IDENTIFIED (SI2)	35	0.23%	56.81	1.74%
PREDICATE CRIME	874	5.83%	313.59	9.58%
FRAUD-RELATED	620	4.14%	130.86	4.00%
FRAUDULENT PRACTICES AND OTHER VIOLATIONS UNDER THE SECURITIES REGULATIONS CODE OF 2000 (PC33)	361	2.41%	35.49	1.08%
SWINDLING (PC09)	193	1.29%	37.62	1.15%
ELECTRONIC COMMERCE ACT OF 2000 (PC11)	66	0.44%	57.75	1.76%
CORRUPTION-RELATED	171	1.14%	132.40	4.05%
GRAFT & CORRUPT PRACTICES (PC03)	163	1.09%	118.37	3.62%
PLUNDER (PC04)	6	0.04%	11.92	0.36%
BRIBERY AND CORRUPTION OF PUBLIC OFFICERS (PC15)	2	0.01%	2.11	0.06%
FRAUDS AND ILLEGAL EXACTIONS AND TRANSACTIONS (PC 16)	65	0.43%	8.84	0.27%
FELONIES OR OFFENSES OF SIMILAR NATURE PUNISHABLE UNDER THE PENAL LAWS OF OTHER COUNTRIES (PC34)	6	0.04%	1.89	0.06%
VIOLATIONS OF THE INTELLECTUAL PROPERTY CODE OF THE PHILIPPINES (PC29)	3	0.02%	24.36	0.74%
SMUGGLING (PC10)	3	0.02%	0.31	0.01%
VIOLATIONS OF THE PHILIPPINE MINING ACT OF 1995 (PC22)	2	0.01%	5.00	0.15%
QUALIFIED THEFT (PC08)	2	0.01%	7.88	0.24%
DRUG TRAFFICKING & RELATED OFFENSES (PC02)	1	0.01%	0.55	0.02%
ROBBERY & EXTORTION (PC05)	1	0.01%	1.50	0.05%
Grand Total	14,990	100.00%	3,272.67	100.00%

Table 6: Total volume and PhP value of STRs with tax-related keywords, covering 1 January 2018 to 30 November 2020, categorized per PC/SC

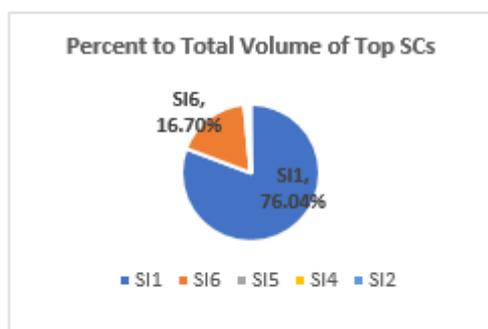


Figure 8a. Dominant SCs of STRs with tax-related keywords

The above table shows that, excluding SI3 which was previously discussed in the earlier section, various SCs overwhelmingly dominate the number of STRs with tax-related keywords at 94.17% (14,116 STRs). As further shown in Figure 8a, topping the SCs is “there is no underlying legal or trade obligation, purpose or economic justification” (SI1), at 76.04% (11,399 STRs). About 64% (7,282) of the STRs filed under SI1 pertain to the following observations: (1) submitted business permits and amount of tax payments by a self-employed individual are misaligned with expected income and unusually large transactions, and (2) inability to submit supporting documents

to validate subjects’ claims that substantial proceeds are incentives/travel reimbursements from employer, investments related to poultry business, or transactions are on behalf of family members/friends.

Ranked second is “the transaction is similar, analogous, or identical to any of the foregoing”¹¹ (SI6), with a 16.70% share or 2,503 STRs. Around 71% (1,783) of the total STRs filed under SI6 pertain to large transactions that were deemed not commensurate with the financial capacity of the subjects and that could have been filed under SI3.

¹¹ The term “foregoing” in SI6 (the transaction is similar, analogous, or identical to any of the foregoing) refers to the various PCs/SCs covered by the AMLA, as amended. SI6 is typically used when the description of the scheme or suspicious activity, though similar/analogous/identical, slightly deviates from the list of available PCs/SCs. This is generally followed by a free text, briefly describing the reason for suspicion.

STRs on various PCs are only at 5.83% (874 STRs) with fraud-related PCs (i.e., fraudulent practices and other violations under the Securities Regulations Code, swindling, Electronic Commerce Act violations) having the most share, collectively at 4.14% (620 STRs). Approximately 55% (343) of the total STRs filed on fraud-related PCs pertain to an unauthorized investment solicitation case being investigated by the SEC and AMLC. Upon the CP's review, the transactions of one of the entities identified in the freeze order were deemed disproportionate to the company's reported net loss.

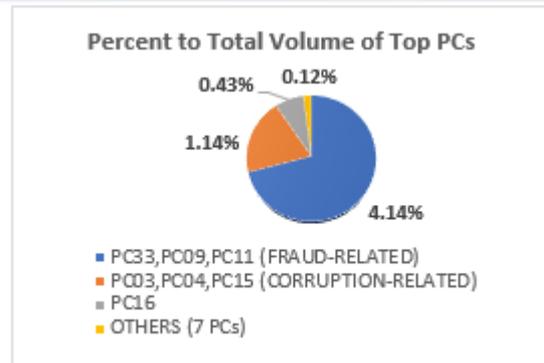


Figure 8b: Dominant PCs of STRs with tax-related keywords

Corruption-related STRs (i.e., graft and corrupt practices, plunder, bribery and corruption of public officers) collectively placed second among PCs with possible links to tax crimes, generating a combined share of 1.14% (171 STRs). Roughly 78% or 133 of corruption-related STRs pertain to the following: (1) transactions of a PEP, who was reportedly convicted of graft and malversation for allegedly donating funds from the municipal government's tobacco excise tax collections to a purported non-government organization (NGO) deemed unqualified to receive donations by the courts, and (2) arrested tax authority officials and accomplice's purported coercion of a certain telco company to settle Php160 million on allegations of a tax deficiency.

Frauds and illegal exactions and transactions (PC16) placed third among PCs with tax-related keywords, accounting for 0.43% or 65 STRs. Further review of the narratives revealed that all are related to various fraud schemes (i.e., investment scam, e-mail hacking, emergency fund scam, income tax scam, package scam, and unauthorized fund transfer), which should have been filed under fraud-related PCs.

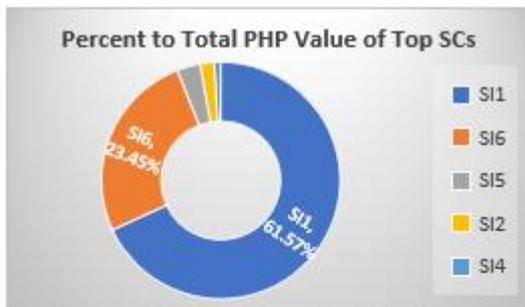


Figure 9a. Dominant SCs of STRs with tax-related keywords

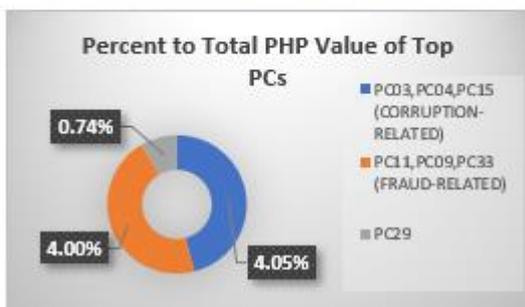


Figure 9b. Dominant PCs of STRs with tax-related keywords

Comparably as shown in Figure 9a, SI1 and SI6 also landed on the top two (2) spots in terms of value, respectively, at 61.57% (Php2 billion) and 23.45% (Php767 million). Subsequently, corruption-related PCs (Figure 9b) topped the list of PCs that generated proceeds with possible links to tax crimes with a collective share of 4.05% (Php132 million). This was closely followed by fraud-related PCs, collectively at 4% with an estimated value of Php131 million. Violations of the Intellectual Property Code of the Philippines (IP violations) or PC29 ranked third at 0.74% (Php24.4 million). Nearly 100% of the STRs' total PhP value (Php24.3 million) on IP violations pertained to a disapproved inward remittance of a client, who was reportedly the subject of negative news in relation to a tax evasion case filed by customs authorities on an alleged involvement of client's business of selling fake male enhancement drugs.

Corruption-related predicate offenses may be viewed as inherently linked to tax crimes, hence, its emergence as among the top PCs in terms of PhP value and next to fraud in terms of STR volume is anticipated. Natural or juridical

persons attempting to evade tax may resort to bribery and corruption of government officials or tax authorities. Conversely, natural or juridical persons pressed to pay bribes will possibly deduct the same as expenses, resulting in tax evasion. Further, suspected corrupt public officials and related interests will likely not report income generated from corrupt activities for tax purposes. On the other hand, fraud by its nature is also perceived as generally linked to tax crimes as proceeds generated are likely not reported to the BIR. In general, it is unlikely that proceeds from financial crimes are reported for tax purposes.

Table 7 shows the volume and PhP value of STRs grouped per SA and industry class of the filing CPs. Majority were filed by BSP-supervised institutions at 99.14% (14,861 STRs). IC- and SEC-supervised entities are only at 0.84% (126 STRs) and 0.02% (3 STRs), respectively. In terms of PhP value, BSP-supervised entities are at 88.74% (PhP2.9 billion), followed by IC-supervised institutions at 11.09% (PhP363 million) and SEC-supervised entities at 0.17% (PhP5.5 million).

Supervising Authority / CPs Industry Classification	Volume Count	Percent to Total Volume	PHP Value (in millions)	Percent to Total PHP Value
BSP	14,861	99.14%	2,904.12	88.74%
COMMERCIAL BANKS/NON EXPANDED				
COMMERCIAL BANKS	14,548	97.05%	2,824.65	86.31%
ELECTRONIC MONEY ISSUER	10	0.07%	0.11	0.00%
MONEY SERVICE BUSINESSES	25	0.17%	3.01	0.09%
PAWNSHOPS	84	0.56%	3.83	0.12%
SAVINGS & MORTGAGE BANKS	190	1.27%	72.25	2.21%
SPECIALIZED GOVERNMENT BANKS	4	0.03%	0.27	0.01%
IC	126	0.84%	363.04	11.09%
INSURANCE COMPANIES & PROFESSIONAL REINSURERS	124	0.83%	363.00	11.09%
PRE-NEED COMPANIES	2	0.01%	0.04	0.00%
SEC	3	0.02%	5.51	0.17%
TRANSFER AGENTS	3	0.02%	5.51	0.17%
Grand Total	14,990	100%	3,272.67	100%

Table 7: Total Volume and PHP Value of STRs relating to various PCs/SCs with tax-related keywords covering 1 January 2018 – 30 November 2020 per SA and CPs Industry Classification

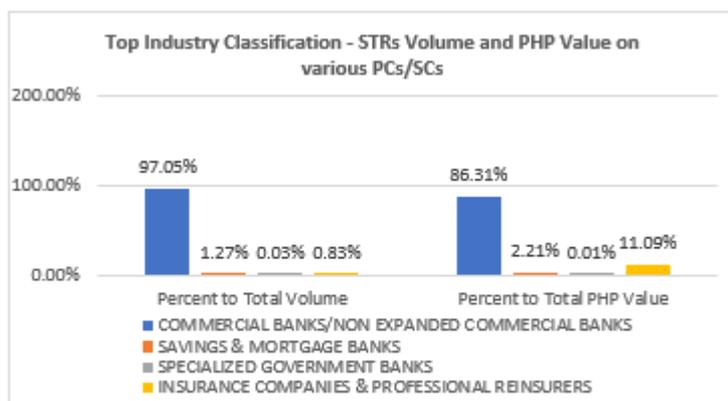


Figure 10. Top industry class of filing CPs for STRs on various PCs/SCs with tax related keywords covering 1 January 2018 – 30 November 2020

Banks contributed largely to the total STRs with a collective share of 98.35% (14,742) and 88.53% (PhP2.9 billion) in terms of volume and PhP value, respectively. As discussed in the previous section on SI3, the dominance of banks is already anticipated given its facility for servicing high-value and high-volume transactions. Insurance companies ranked second in terms of value at 11.09% (PhP362.99 million), despite having a minimal share of 0.83% (124) to the total volume of STRs. Insurance products may be considered as high-

value instruments, which possibly explains the significant value of insurance-related STRs perceived to have links to tax crimes.

A total of 33 broadly categorized transaction types are identified in the STRs associated with various PCs/SCs. Cash deposits dominate the share of STRs, relating to various PCs/SCs in terms of PhP value at 36.57% (PhP1.19 billion), followed by cash withdrawals at 14.33% (PhP468.8 million) and inter-account or same-bank transfers at 13.36% (PhP437.1 million). Volume-wise, inter-account or same bank transfers topped at 40.30% (6,041 STRs), followed closely by cash deposits at 34.68% (5,198 STRs), and cash withdrawals at 16.16% (2,422 STRs). As stated previously under SI3, statistics on cash deposits and withdrawals are consistent with the inherent risk of cash transactions due to its tendency to obscure the audit trail. Same-bank transfers may be viewed as the layering stage, where funds veer away from the original source account through subsequent transfers to other accounts.

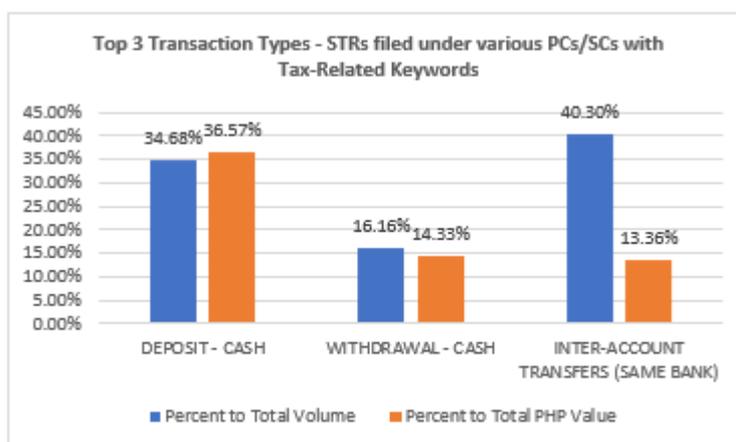


Figure 11. Top Transaction Types - STRs on various PCs/SCs with tax related keywords covering 1 Jan. 2018 – 30 Nov. 2020

Similar to SI3, different transaction types involving various PCs/SCs with tax-related keywords are categorized into inflow, outflow, and neutral transactions. The net flow is computed by deducting total outflows from inflows, while neutral transactions (i.e., same bank transfers, foreign exchange) are also shown but not considered in the computation of net flow.

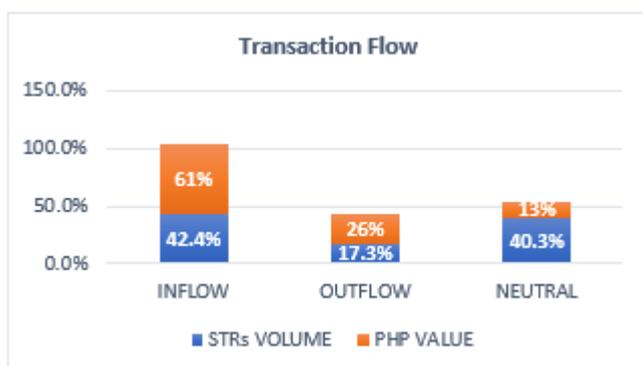


Figure 12a. STRs on various SCs/PCs with tax related keywords by transaction flow covering 1 January 2018 – 30 November 2020

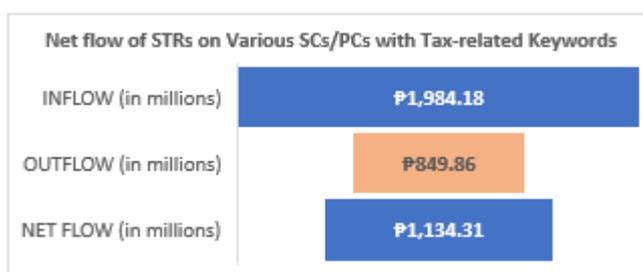


Figure 12b. Net flow of STRs on various SCs/PCs with tax related keywords covering 1 January 2018 – 30 November 2020

As shown in Figure 12a, total inflows constitute 42.4% (6,360 STRs) and 61% (PhP1.98 billion) of the total volume and PhP value, respectively, of transactions associated with various SCs/PCs, possessing tax-related keywords in the narrative. Outflows comprise 17.3% (2,586 STRs) and 26% (PhP849.86 million), while neutral transactions account for 40.3% (6,044 STRs) and 13% (PhP438.63 million) of the total volume and PhP value, respectively, of STRs on various SCs/PCs.

Figure 12b shows a net flow of PhP1.13 billion, which may indicate that as of the period covered, majority of the proceeds perceived to have links to tax crimes remain in the accounts or various instruments held and maintained by possible offenders with various CPs. The netted-out figure may also represent the remaining proceeds generated from suspicious activities and various predicate crimes with possible links to tax crimes.

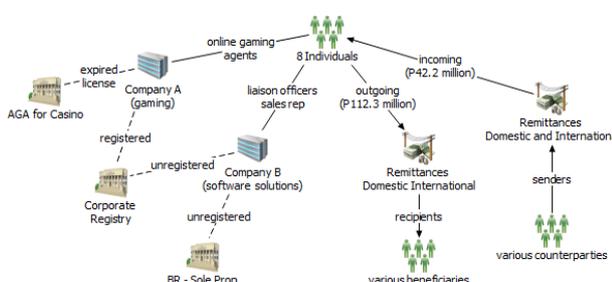
IV. TYPOLOGIES and SUSPICIOUS INDICATORS

Certain notable typologies observed in the dataset, covering 1 January 2018 to 30 November 2020, are presented below. The bases for highlighting these typologies are the significance of the amounts involved and/or frequency of reports on the suspicious activity/scheme, which may relate to tax crimes. These typologies also show various suspicious indicators that represent the different patterns observed in the entire dataset.

Source of funds (e.g., employment) not commensurate with significant transactions

Eight (8) individuals sharing similar transactional behaviors, profiles, and business details figured in numerous suspicious transactions with an estimated value of PhP155 million. These individuals were identified as online booking agents under Company A, a registered gaming corporation.

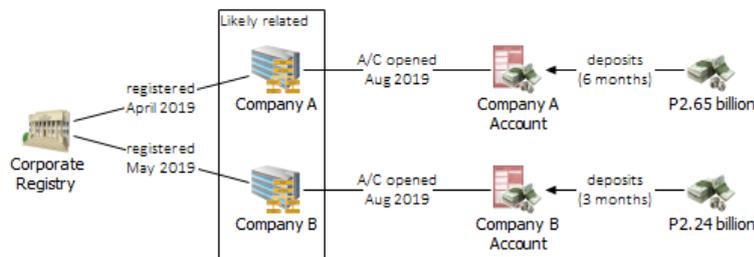
The CPs, however, discovered that Company A's permit/license, which was allegedly issued by an AGA for casinos, has reportedly expired. The individuals were then asked to present updated identification details (IDs) and license/permit of Company A. Instead, they presented new IDs under Company B, an entity engaged in software solutions. The CP noted that upon checking the government website for business name registration (BR), no registration records were found on Company B. Moreover, the individuals, who were also



alleged gamblers, declared themselves either as liaison officers or sales representatives for Company B, and most of them declared salaries as source of funds. The transactions of the eight (8) individuals with various pawnshops and MSBs showed similar patterns of domestic and international remittances from/to various sources/beneficiaries that were deemed not commensurate with their profiles. The nature of both outgoing and incoming remittances was further declared as either one or a combination of the following: (1) payments for an online software, (2) purchase of goods, supplies, and services, (3) funds from business partners or friends, (4) payments or winnings of bettors for online cockfighting, and (4) payments for other online businesses.

Transaction flow (substantial cash deposits) deviates from nature of business (e.g., engaged in real estate activities)

Two (2) likely related entities figured in various suspicious transactions valued at Php6.12 billion. Both are engaged in real estate activities and simultaneously opened joint automatic transfer accounts in August 2019.



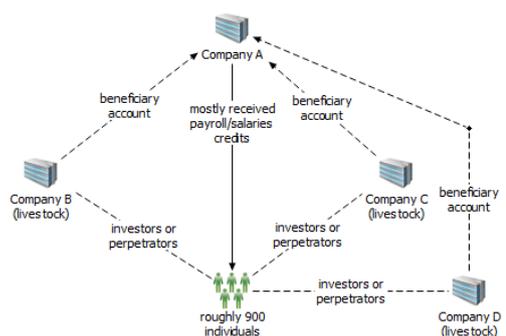
Majority of the questionable transactions refer to cash deposits (ranging from Php10 million to Php300 million per transaction) with an estimated value of Php4.89 billion, which were transacted between September 2019 and March 2020. The

registration records presented by both entities showed near-date approvals (i.e., April 2019, May 2019). Based on the CPs' customer due diligence (CDD) checks, both entities are assessed as start-up companies and the nature of business is not considered cash-intensive. The substantial flow of cash deposits on both entities' accounts are viewed as not commensurate with and a deviation from their financial capacity and profile.

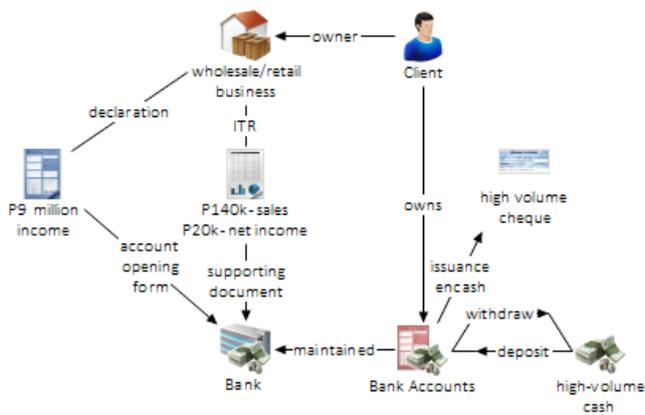
The extensive use of substantial cash is viewed as a possible red flag, considering the entities' nature of business. Aside from doubts as to the actual sources of funds, it is also possible that actual proceeds derived from the businesses are unreported for tax purposes.

Unlicensed investment-taking or solicitation activities from the public

Roughly 900 individuals figured in voluminous suspicious transactions estimated at Php226 million relative to an alleged involvement in unauthorized and fraudulent investment schemes. The scheme reportedly involves investing in livestock products with a promise of a 100% return in two (2) months. Majority of the nearly 900 subjects received funds via payroll credits from a travel and tours agency, which is allegedly used as the beneficiary account of the investment-taking activities of three (3) entities. An SEC advisory was released in 2019 against the three (3) entities, warning the public to stop investing in said companies. The SEC further warned that those involved will be reported to tax authorities, so that penalties and/or appropriate taxes will be correspondingly assessed.



Submitted income tax return (ITR) does not support declared monthly income during account opening

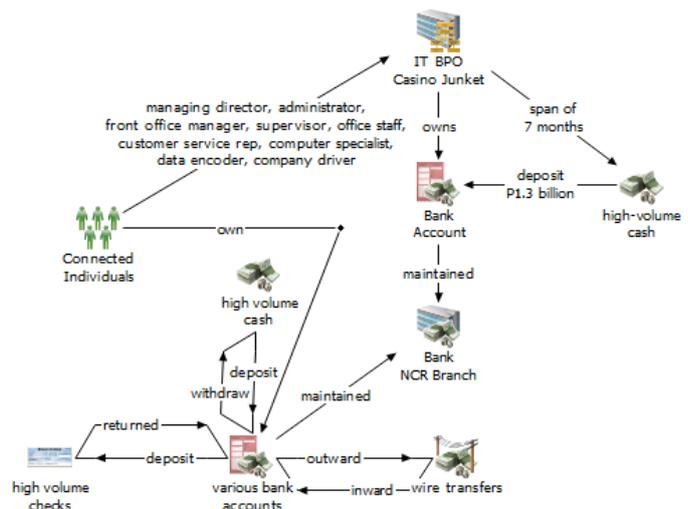


A client made several suspicious transactions valued at PhP1.92 billion. The client owns a business engaged in wholesale/retail of electronic devices and hardware supply, with a declared monthly income of PhP9 million. The bank reportedly tagged the client as blacklisted due to alerts generated, resulting from subject’s high volume of cash deposits that were subsequently withdrawn. Review of the subject’s account movement also reportedly showed similar attributes of being a pass-thru account due to the high volume of deposits that were subsequently debited mostly through encashments and check

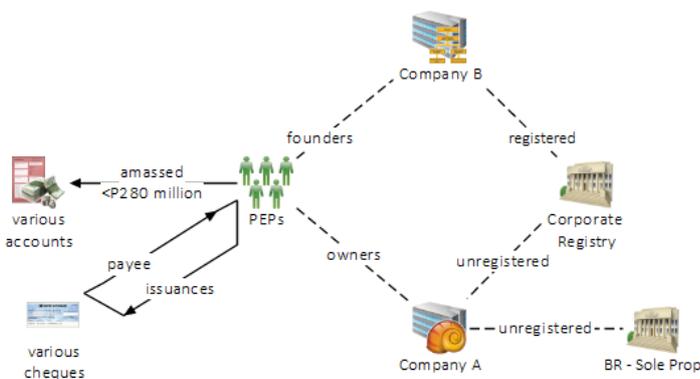
issuances. It was further noted that while the client submitted business documents, such as an ITR and receipts/sales invoices (mostly issued to individuals), the substantial transactions were deemed not commensurate with the client’s declared income. Moreover, the amounts of sales and net income reflected in the submitted ITR were only PhP140,000 and PhP20,000 respectively.

Unsubstantiated significant transactions linked to online gaming operations

Certain individuals and a business process outsourcing company (BPO) made significant transactions, estimated at PhP1.76 billion, deemed suspicious by the reporting CP. The subject entity is purportedly an IT BPO of a licensed gaming company and is also an operator of a casino junket. The entity reportedly made several significant cash deposits, totaling PhP1.3 billion in a span of seven (7) months. The individuals, who are mostly foreign nationals, also made substantial transactions regarded as not commensurate with their declared source of funds. The individuals are purportedly employed with the subject entity. The transactions involving the subjects are largely cash deposits, which tend to obscure the source of proceeds.



Unsubstantiated significant transactions of politically exposed persons (PEPs)

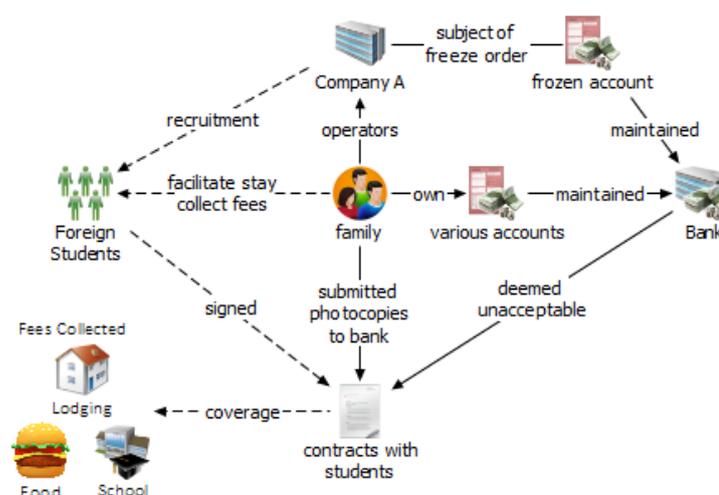


Certain PEPs made numerous suspicious transactions valued at PhP2.1 billion between 2019 and 2020. The PEPs declared business ownership as source of fund, which was discovered to be inexistent per the CPs’ CDD and EDD checks. They also declared income as founders of a delivery business. These PEPs reportedly amassed roughly PhP280 million in their checking, savings, and time deposit accounts that were deemed not commensurate with their business or financial capacity. It was also noted that

majority of their check issuances were also payable to them.

Foreign nationals operating a consultancy business subject of freeze order

Company A, a consultancy business, was reportedly the subject of a freeze order issued in 2018. Company A and its operators made numerous suspicious transactions between 2016 and 2018, estimated at PhP1.6 billion. One bank reported that the operators allegedly represented that their business involves the recruitment of students from Country A and collects fees for providing full accommodation, food, and tuition fee for schools in the Philippines. The operators were requested to provide supporting documents for their claim, and they allegedly provided photocopies



of contracts with students. However, the documents provided were reportedly inadequate to support the source of funds and volume of transactions. The bank subjected the accounts of Company A and its operators to enhanced monitoring and requested the operators to submit additional supporting documents. The subsequent submissions were further assessed, and the bank deemed the same to be doubtful and still insufficient to support the transactions and establish the source of funds. The bank filed several suspicious transaction reports and decided to terminate business relationship with the clients.

V. CONCLUSION and RECOMMENDATION

The OECD's 2019 publication, *"Combatting Tax Crimes More Effectively in APEC Economies"* that cited the Philippines as one of the APEC economies reviewed as compliant or largely compliant by the Global Forum for Exchange of Information on Request, highlights the country's strength in cooperating internationally between tax authorities to combat tax crime. The recent inclusion of tax evasion under the AMLA, as amended, will not just support the country's adherence to international or global standards but will further enhance domestic-inter-agency cooperation in combatting the same.

In the Second NRA, the threat of tax crimes to ML was rated high due to non-inclusion of tax crimes as predicate offenses to ML; considerable proceeds generated from tax crimes; and the low convictions and recovery of proceeds, despite the efforts of the BIR. The inclusion of tax evasion as a predicate offense to ML addresses one of the issues for the high ML threat rating. Further, the anticipated domestic inter-agency sharing between the AMLC and BIR will possibly contribute to the increase in recovery of proceeds with links to tax crimes.

The conditions laid out in the AMLA's coverage of tax evasion as an unlawful activity for ML presuppose knowledge of relevant tax filings/payments, including net worth, of natural or juridical persons. This may be interpreted as having access, whether direct or indirect, to tax records in the possession of the BIR. This aspect was not explored in the study, since the inclusion of tax evasion under the AMLA, as amended, is recent, and the extent of sharing between the AMLC and BIR remains to be seen. At this stage, sharing the results of AMLC's analysis of STRs with possible linkage to tax crimes, including details of possible offenders, with the BIR (subject to the renewal of a memorandum of agreement) is likely adequate.

Banks, investment houses, and insurance companies are the preferred channels in moving high-value proceeds with possible links to tax crimes. For lesser values, EMLs, pawnshops, and MSBs are generally used. Cash transactions (e.g., cash deposits, withdrawals) dominate the different suspicious transaction types, which is consistent with its inherent risk for its tendency to obscure the audit trail. Moreover, the combined transaction net flow of SI3 and other SCs/PCs was measured at PhP27.5 billion. This may mean that majority of the proceeds

perceived to have links to tax crimes remain in the accounts or various instruments held and maintained by possible offenders with various CPs. The netted-out figure may also represent the remaining proceeds generated from suspicious activities in relation to SI3 and various SCs/PCs with possible links to tax crimes.

Considering the conditions¹² laid out in the inclusion of tax evasion under the AMLA, as amended, and its inherent link to other financial crimes, aside from using the PC on tax evasion, the AMLC may still encourage CPs to file STRs with possible links to tax crimes with SI3 and other associated financial crimes or PCs (e.g., corruption, fraud, IP violations, among others) as reason/s for filing in combination with tax-related keywords in the narrative. Suggested keywords/phrases which may be incorporated by the CPs in the narrative of their STR filings to suggest possible links to tax evasion or tax crimes, include but are not limited to the following:

- | | |
|-----------------|--|
| (1) Taxable | (5) Possible tax evasion, tax fraud or tax crime |
| (2) Taxation | (6) May relate to tax evasion, tax fraud or tax crime |
| (3) Tax evasion | (7) Transactions may be unreported for tax purposes |
| (4) Tax fraud | (8) Income tax details deviate from the flow of transactions |

The STR filings of various CPs and subsequent sharing of the same with AMLC internal investigators and tax authorities will bolster the country's proactive stance in combatting financial crimes, including tax evasion.

The information in the study may provide insights to relevant stakeholders, hence, subsequent sharing with relevant law enforcement agencies, supervising authorities, and private participants to the AMLC's Public-Private Partnership Program is recommended. A redacted version shall also be published on the AMLC website.

¹² (1) Where the deficiency basic tax due in the final assessment is in excess of Twenty-Five Million Pesos (PhP25,000,000) per taxable year, for each type covered and there has been a finding of probable cause by the competent authority; (2) That there must be a finding of fraud, willful misrepresentation, or malicious intent on the part of the taxpayer; (3) xxxx.

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