

Examining Tax Crimes:

A Study of Suspicious Transaction Reports in the Philippines



APRIL 2024

TABLE OF CONTENTS

TABLE OF ACRONYMS 3

EXECUTIVE SUMMARY 5

BACKGROUND OF THE STUDY 6

SCOPE AND METHODOLOGY 14

DATA PROFILE 18

TAX CRIME TYPOLOGIES 32

CONCLUSION 38

RECOMMENDATIONS 39

REFERENCES 40

TABLE OF ACRONYMS

AEOI	Automatic Exchange of Financial Account Information
AMLA	Anti-Money Laundering Act
AMLC	Anti-Money Laundering Council
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
APEC	Asia Pacific Economic Cooperation
APG	Asia Pacific Group on Money Laundering
ARRG	AMLC Registration and Reporting Guidelines
BIR	Bureau of Internal Revenue
BOA	Branch of Account
BOC	Bureau of Customs
CPs	Covered Persons
DNFBP	Designated Non-Financial Businesses and Professions
DOJ	Department of Justice
EMI	Electronic Money Issuers
EOI	Exchange of Information
EOIR	Exchange of Information on Request
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
IC	Insurance Commission
IMF	International Monetary Fund
LEA	Law Enforcement Agency
MER	Mutual Evaluation Report
ML	Money Laundering
MOA	Memorandum of Agreement
MSB	Money Service Businesses
NBI	National Bureau of Investigation
NCR	National Capital Region of the Philippines
NIRC	National Internal Revenue Code

OECD	Organization for Economic Cooperation and Development
PAGCOR	Philippine Amusement and Gaming Corporation
PC	Predicate Crime
POI	Person of Interest
PhP	Philippine Peso
PNP CIDG	Philippine National Police Criminal Investigation and Detection Group
PPPP	Public-Private Partnership Program
PRC	People's Republic of China
RA	Republic Act
RATE	Run After Tax Evaders
RAFT	Run After Fake Transactions
RATS	Run After Tax Smugglers
SA	Supervising Authorities
SC	Suspicious Circumstance
STR	Suspicious Transaction Report
TF	Terrorism Financing
TFPSA	Terrorism Financing Prevention and Suppression Act
TFTC	Task Force on Tax Crimes and Other Crimes
TIN	Tax Identification Number
UAE	United Arab Emirates
USD	US Dollar

EXECUTIVE SUMMARY

Taxation stands as the cornerstone of governmental revenue, supplying essential funds for public services and infrastructure. In the Philippines, where taxes contribute approximately 90% of government income, effective tax collection is paramount for sustaining fiscal stability. However, tax evasion presents a formidable challenge, resulting in significant annual revenue losses estimated at around PhP500 billion.

The inclusion of tax evasion as a predicate offense in the Anti-Money Laundering Act (AMLA) on 21 January 2021 prompted Covered Persons (CPs) to file suspicious transaction reports (STRs) related to tax crimes. While the same year saw a notable increase in STR submissions to 6,061, there was a subsequent decline in tax crime-related transactions in the following years, reaching 1,432 in 2023. This decline underscores the transitional nature of CPs' reporting practices in response to legislative changes.

Analysis reveals that 94.79% of tax crime-related STRs were proactively reported between January 2021 and June 2023, with internal screenings and investigations driving 78.44% of these reports. Notably, a reactive reporting rate of 5.21% suggests the influence of overseas law enforcement in triggering 3.57% of reports.

The majority of STRs during this period fell under the Suspicious Circumstance (SC) category, accounting for 80.13% in volume and 96.64% in value. However, concerns arise regarding misclassification of predicate crimes (PCs) for tax crime-related STRs, highlighting the need for accurate reporting and classification.

A detailed analysis of transaction categories reveals inter-account transfers as the most common transaction type by volume, while check deposits hold the highest transaction value. Geographically, Metro Manila emerges as the primary contributor to tax crime-related STRs, with Mandaluyong leading in both volume and value.

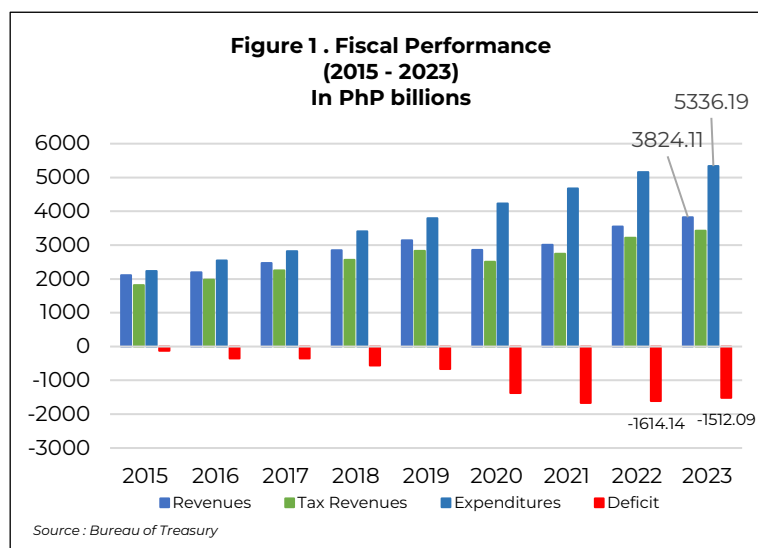
Supervised institutions under the Bangko Sentral ng Pilipinas (BSP) dominate in STR submissions, with banks collectively representing the primary contributors. However, rural banks and savings institutions also play significant roles in terms of value shares.

The study identifies typologies associated with tax evasion, ranging from unusual transaction patterns linked to online gaming service providers to vloggers attempting to conceal income. Recommendations are proposed to enhance STR submission practices, ensure accurate classification of transactions, strengthen domestic cooperation, and increase public awareness of tax-related crimes.

By implementing these recommendations, the Philippines can bolster its efforts to combat tax evasion and strengthen its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework, fostering financial integrity and sustainable development.

BACKGROUND OF THE STUDY

Prior to comprehending tax evasion, one must have a firm grasp on the rationale behind governments' tax payment obligations. Taxation plays a vital role in sustaining the function of the government, thus necessitating the collection of taxes without undue obstruction. Specifically, the lifeblood theory in taxation recognizes the importance of taxes for the state and its citizens. According to this theory, taxes are the main source of revenue for the government, which enables it to perform its duties and provide public goods and services.¹ Significantly, on the average, closely 90% of the government's revenues are obtained through taxation; thus, it follows that effective tax collection results in favorable fiscal outcomes. Although the Philippine



government consistently runs a deficit, the fiscal deficit decreased to PhP1.51 trillion by the end of December 2023, from PhP1.61 trillion in 2022 (**Figure 1**).² The government possesses three alternatives to bridge the budget deficit in the event that revenues fail to cover intended expenditures: borrowing, money printing, or an increase in taxes.³

Tax receipts are undeniably the primary means by which the government obtains financing. However, the progress of this endeavor is impeded by the issue of tax evasion, which exerts a negative influence on the economy through the reduction of government income used to finance public infrastructure, education, health programs, and various other services. The act of tax evasion is a criminal offense characterized by the intentional act of evading or underreporting taxes owed to the government.⁴

Tax evasion has long been acknowledged as a key factor in the country's poor revenue performance.⁵ Relative to this, tax evasion costs the Philippine government approximately PhP500 billion per year, according to the Bureau of Internal Revenue (BIR).⁶ For tax-related criminal activities involving ghost receipts alone, the Bureau

¹ The Lifeblood Doctrine specifies that "Without revenue raised from taxation, the government will not survive, resulting in detriment to society. Without taxes, the government would be paralyzed for lack of motive power to activate and operate it." (CIR v. Algue, Inc., G.R. No. L-28896, February 17, 1988, 158 SCRA 9). See, https://lawphil.net/judjuris/juri1988/feb1988/gr_l_28896_1988.html (Link accessed 05 January 2024).

² Fiscal data sourced from https://www.treasury.gov.ph/?page_id=4221 (Link accessed on 04 March 2024).

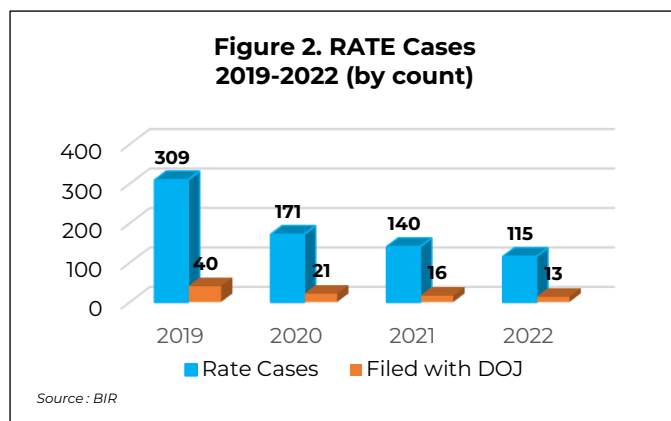
³ The Philippine national government had large and unsustainable budget deficits in the 1980s. But after a brief period of near-balanced budget in the mid-1990s, large deficits have reemerged in recent years. During the 1980s, the national government of the Philippines incurred substantial and unmanageable budget deficits. However, following a short phase of budget balance during the mid-1990s, significant deficits have surfaced in recent times. See, <https://ideas.repec.org/a/phs/prejrn/v47y2010i1p39-87.html> (Link accessed on 04 March 2024).

⁴ <https://www.respicio.ph/features/defending-against-charges-of-tax-evasion-in-the-philippines> (Link accessed on 04 March 2024).

⁵ <https://www.adb.org/sites/default/files/publication/27522/tax-evasion-phi.pdf> (Link accessed on 03 March 2024).

⁶ <https://www.bworldonline.com/top-stories/2023/02/21/505872/government-losing-p500-billion-to-tax-evasion-bir/> (Link accessed on 03 March 2024).

estimated losses to reach PhP100 billion throughout 2023.⁷ However, there is a



concerning trend in reporting, as the number of complaints filed has decreased significantly—from 309 in 2019 to 115 in 2022 (**Figure 2**). The quantity of cases lodged with the Department of Justice (DOJ) exhibited a comparable pattern.⁸ From July 2022 to May 2023, the Run After Tax Evaders (RATE) Program facilitated the filing of 192 complaints with the DOJ, with estimated liabilities totaling PhP8

billion.⁹ These figures underscore the urgent need for government action to address the substantial revenue losses.

The incorporation of tax evasion as a predicate offense into Republic Act (RA) 9160, also known as the AMLA of 2001, was realized through RA 11521, or "An Act Further Strengthening the Anti-Money Laundering Law," enacted on 21 January 2021.¹⁰ This legislative update clarified that the Anti-Money Laundering Council (AMLC) is prohibited from engaging in the operations of the BIR. However, it does allow for coordination between the AMLC and BIR for investigations concerning tax evasion as a predicate offense to money laundering (ML).¹¹

This update to the AMLA coincides with the publication of the first AMLC study on tax crimes in the same year.¹² By analyzing STRs, said study focused on assessing the potential exposure of the Philippines to tax crimes before tax evasion was categorized as a predicate offense. While the initial study provided a solid analysis, it is necessary to update the study's findings and evaluate the impact of including tax evasion as a predicate offense on STR filings. Consequently, this study of tax crimes will cover STRs from January 2021 to June 2023 to gauge the effect of the legislative amendment, specifically focusing on the number and details of reports from CPs under PC35,¹³ particularly concerning tax evasion.

REVIEW OF RELATED LITERATURE

Combatting tax crimes is a critical concern for various entities including revenue authorities, Financial Intelligence Units (FIUs), and Law Enforcement Agencies (LEAs).¹⁴ The notion of tax crime encompasses actions that contravene the tax rules of a nation and are subject to scrutiny, legal action, and punishment as part of the

⁷ <https://businessmirror.com.ph/2024/03/05/after-a-year-bir-wins-tax-evasion-case-at-doj/?fbclid=IwAR2r4-JRaVTaJZ3Aih-hYGI8TFALTILXALbw7SHgYFdMqDI3bcq29endiQY> (Link accessed 04 March 2024).

⁸ Sourced from <https://www.bir.gov.ph/list>. (Link accessed on 03 March 2024).

⁹ <https://www.dof.gov.ph/diokno-to-bir-strong-revenue-collections-fair-and-efficient-tax-administration-vital-to-achieving-fiscal-targets/>. (Link accessed 04 March 2024).

¹⁰ <https://www.officialgazette.gov.ph/downloads/2021/01jan/20210129-RA-11521-RRD.pdf> (Link accessed 28 February 2024).

¹¹ [SyCipLaw-Amendments-to-the-Anti-Money-Laundering-Act-RA-11521.pdf](https://www.sycip-law.com/Amendments-to-the-Anti-Money-Laundering-Act-RA-11521.pdf) ([syciplawresources.com](https://www.syciplawresources.com)) (Link accessed 28 February 2024).

¹² <http://www.amlc.gov.ph/images/PDFs/2021%20ANALYSIS%20OF%20STRS%20WITH%20POSSIBLE%20LINKS%20TO%20TAX%20CRIMES.pdf> (Link accessed 28 February 2024)

¹³ PC35 is also known as the Violations of Section 254 of Chapter II, Title X of the National Internal Revenue Code of 1997, as amended, where the deficiency basic tax due in the final assessment is in excess of PhP25,000,000.00 per taxable year, for each tax type covered and it meets the other conditions provided under the AMLA, as amended.

¹⁴ https://egmontgroup.org/wp-content/uploads/2021/09/2020_Public_Bulletin_Money_Laundering_of_Serious_Tax_Crimes.pdf (Link accessed 28 February 2024)

framework of criminal procedures within the domestic criminal justice system. It frequently pertains to instances of non-payment of taxes that are lawfully owed according to the relevant tax legislation, such as tax evasion or tax fraud.¹⁵

Tax evasion was established as a punishable crime during the prosecution of Al Capone in the early twentieth century, where he was charged for evading taxes rather than for being a gangster.¹⁶ The criminal, who had confidently stated, "They can't collect legal taxes from illegal money," received an 11-year prison sentence for not submitting tax returns.¹⁷

The phrase "money laundering" originated from Al Capone's use of launderettes, which were cash-intensive businesses, to conceal his income from illicit alcohol sales. The historical relationship between tax evasion and ML has been deeply connected, but it has taken a considerable amount of time for them to be linked in the present.¹⁸

The Financial Action Task Force (FATF) has played a significant role in shaping policies to combat ML and tax crimes. Initially focusing on laundering proceeds from specific drug offenses, FATF expanded its recommendations over time. Additionally, the G7¹⁹ launched initiatives in 1998 aimed to curb harmful tax competition and increase international cooperation in combating tax evasion. Said campaign recognized the connection between ML and tax crimes.²⁰

In 2012, the FATF updated its Recommendations to include tax evasion as the 21st recognized predicate offense. This raised questions about whether this newly added offense should be regarded as a typical (as opposed to distinctive) element in criminal laws. The FATF stated that this change expands the scope of ML investigations to cover the proceeds of tax crimes. While the update has partly achieved its objective, there are some drawbacks, as tax evasion is not always considered a typical predicate offense. For it to be classified as such, tax evasion must involve a significant criminal act resulting in illegal profits that necessitate a separate process of laundering.²¹

Additionally, the Organization for Economic Cooperation and Development (OECD) Task Force on Tax Crimes and Other Crimes (TFTC)²² has recognized tax crimes as a predicate offense to ML under Principle 7 of its Ten Global Principles for Fighting Tax Crime. These principles were developed by the OECD TFTC, with the second edition released in late 2021. Official endorsement of these principles as an OECD Council Recommendation occurred in June 2022, urging adherence from OECD member nations and other interested parties.²³

¹⁵ <https://www.imf.org/en/Publications/WP/Issues/2023/04/21/Leveraging-Anti-money-Laundering-Measures-to-Improve-Tax-Compliance-and-Help-Mobilize-532652> (Link accessed 19 March 2024).

¹⁶ <https://doi.org/10.1093/oso/9780198854722.003.0013> (Link accessed 28 February 2024).

¹⁷ <https://www.forbes.com/sites/kellyphillips/2020/10/17/al-capone-convicted-on-this-day-in-1931-after-boasting-they-cant-collect-legal-taxes-from-illegal-money/?sh=350d26e21435> (Link accessed 28 February 2024).

¹⁸ <https://doi.org/10.1093/oso/9780198854722.003.0013> (Link accessed 28 February 2024).

¹⁹ The G7 is an intergovernmental organization comprising of the world's largest developed economies: Canada, France, Germany, Italy, Japan, United Kingdom and United States. See <https://www.investopedia.com/terms/g/g7.asp> (Link accessed 25 June 2024).

²⁰ <https://apgml.org/methods-and-trends/news/details.aspx?pcPage=1&n=5206> (Link accessed 28 February 2024).

²¹ <https://www.bvagroup.com/files/files/Tax%20Evasion%20and%20Money%20Laundering%20-%20A%20Complete%20Framework%20-%20Journal%20of%20Financial%20Crime.pdf> (Link accessed 28 February 2024).

²² In 2010, the OECD established the TFTC, which took over a small Sub-Group on Tax Crimes and Money Laundering. Its initiatives include, but are not limited to, fostering greater collaboration between tax and law enforcement agencies, such as anti-corruption and anti-money laundering authorities, to combat crime more efficiently. The OECD's endeavors in this domain additionally encompass the Forum on Tax and Crime. To further elaborate, see <https://www.oecd.org/tax/crime/>. (Link accessed 29 Feb 2024).

²³ Recommendation of the OECD Council on the Ten Global Principles for Fighting Tax Crimes approved on June 10, 2022 (OECD/LEGAL/0469). See <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0469#mainText>. (Link accessed on 04 March 2024).

Box 1. OECD “Ten Global Principles” for Fighting Tax Crimes

Principle 1: Ensure tax offenses are criminalized

It is imperative for countries to establish a legal structure that guarantees the criminalization of tax law violations and the implementation of effective sanctions in practice.

Principle 2: Devise an effective strategy for addressing tax crimes

A strategy should be in place for countries to combat tax offenses in order to guarantee their effectiveness in practice. The strategy should be monitored and evaluated on a regular basis.

Principle 3: Have adequate investigative powers

Countries should have sufficient investigation powers to properly investigate tax violations.

Principle 4: Have effective powers to freeze, seize, and confiscate assets

It is imperative that countries possess the ability to freeze and seize assets during the course of a tax crime investigation, in addition to the authority to confiscate assets.

Principle 5: Put in place an organizational structure with defined responsibilities

For combating financial and tax crimes, among others, countries ought to implement organizational structures that delineate specific duties.

Principle 6: Provide adequate resources for tax crime investigation

Countries should provide sufficient funding to tax crime investigating agencies.

Principle 7: Make tax crimes a predicate offense to money laundering

It is imperative that countries classify tax crimes as a predicate offense to money laundering.

Principle 8: Have an effective framework for domestic inter-agency cooperation

Countries should have an effective legislative and administrative framework in place to allow tax officials to collaborate with other domestic law enforcement and intelligence agencies.

Principle 9: Ensure international cooperation mechanisms are available

Countries should ensure that tax crime investigation agencies have access to criminal legal instruments as well as a sufficient operational structure to facilitate successful international cooperation in tax investigation and prosecution.

Principle 10: Protect suspect's rights

Countries should ensure that taxpayers suspected or charged of a tax offense have access to basic procedural and fundamental rights.

Source: OECD

The Global Principles encompass various facets essential for establishing an effective framework to combat tax crimes and related financial offenses like ML and corruption. These principles interlink tax and anti-money laundering (AML) domains by: (i) advocating for the criminalization of tax offenses and acknowledging tax crimes as predicate offenses to ML,²⁴ (ii) drawing on AML mechanisms for investigative powers, freezing orders, confiscation, and organizational structures,²⁵ (iii) emphasizing the necessity of seamless inter-agency collaboration particularly between tax and AML authorities,²⁶ and (iv) highlighting the significance of international cooperation due to the shared transactional aspects of tax and financial crimes.²⁷ For reference purposes, the ten principles are detailed in **Box 1**.²⁸

In the Philippines, the BIR began advocating for the inclusion of tax evasion as an unlawful activity under the AMLA as early as 2011. They stressed that regardless of the income source, whether legal or illicit, all earnings are subject to taxation, making the failure to remit taxes on such income a criminal offense. Moreover, individuals who participate in illicit enterprises invariably engage in the act of tax evasion.²⁹

In the 2019 Mutual Evaluation Report, the Philippines was found to be marginally compliant with Recommendation No. 23.³⁰ Notable shortcomings identified

²⁴ Principles 1 & 7.

²⁵ Principles 3 to 5.

²⁶ Principle 8.

²⁷ Principle 9.

²⁸ Summarized framework lifted from the IMF article <https://www.elibrary.imf.org/view/journals/001/2023/083/article-A001-en.xml> (Link accessed 29 February 2024).

²⁹ <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwi-n52bktaEAXWloGMGHcEJAj4QFnoECBgQAQ&url=https%3A%2F%2Fwww.philstar.com%2Fbusiness%2F2011%2F12%2F16%2F758446%2Fb1r-wants-tax-evasion-classified-predicate-crime-under-aml&usq=AOvVaw0uPuPgGa8Fko3xwEZDcN4e&opi=89978449>. (Link accessed 01 March 2024).

³⁰ Recommendation 23 evaluates the country's compliance with AML/CFT measures for Designated Non-Financial Businesses and Professions (DNFBPs). Since 2009, the Philippines has improved by requiring most DNFBPs to file STRs within five days, but deficiencies remain, including the lack of STR obligations for real estate brokers and incomplete coverage for tax crimes and

included the absence of tax crime as a predicate offense, exemption of attempted transactions from STRs, and a reporting deadline not considered "prompt". However, the Philippines has since addressed these deficiencies by integrating tax crimes as a predicate offense into the definition of 'unlawful activity' (s.3(i) of AMLA).³¹

APPLICABLE POLICY MEASURES

Following are the measures taken by the Philippine government and individuals to combat tax evasion effectively:

1. ***Strengthening of the Tax Laws and Penalties.*** In an effort to further strengthen the Tax Code, RA No. 10963 also known as the Tax Reform for Acceleration and Inclusion Law or the TRAIN Law amended Sections 254 and 264 of the Tax Code and introduced Sections 264-A, 264-B, and 265-A.³² Relative to this, the BIR released Revenue Regulations No. 13-2021 to enforce the penalties outlined in Sections 76 to 80 of the TRAIN Law³³ herein identified as the following:
 - **Enforcing stricter and tougher fines and penalties (including extended jail time) for such offenses.** For attempts to evade or defeat income taxes, the fine was increased to between PhP500,000 and PhP10 million. Previously, the fine slapped on those convicted by court for tax evasion was only PhP30,000 to PhP100,000. Imprisonment, meanwhile, will range from six to 10 years, longer than two to four years previously. The fine and penalty shall be in addition to other penalties provided for by law. The conviction or acquittal obtained for violation shall not be a bar to the filing of a civil suit for the collection of taxes.³⁴
 - **It also added new penalty provisions.** For those who print false and illegal receipts, the BIR imposes the same fines and jail term. Likewise, corporate taxpayers who fail to transmit sales data to the BIR's electronic sales reporting system will face a penalty of one-tenth of 1% of their annual net income in the second year after the current taxable year, or PhP10,000, whichever is higher, for each day of violation.³⁵
2. **Tax Evasion as a PC under the AMLA.** The addition of tax evasion as a predicate offense to the AMLA via RA 11521, signed on 21 January 2021,³⁶ has broadened the scope of unlawful activities governed by the AMLA. Specifically, tax evasion under Section 254 of the National Internal Revenue Code (NIRC), as amended, is now included if the deficiency in basic tax due

attempted transactions, among others. See, <https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-mer/APG-Mutual-Evaluation-Report-Philippines.pdf.coredownload.inline.pdf> (Link accessed 01 March 2024).

³¹<https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-fur/APG-Follow-Up-Report-Philippines-2021.pdf.coredownload.inline.pdf> (Link accessed 01 March 2024).

³²<https://www.grantthornton.com.ph/insights/articles-and-updates/tax-notes/implementation-of-new-penalty-provisions-under-train-law/> (Link accessed 15 March 2024).

³³ <https://bir-cdn.bir.gov.ph/local/pdf/RR%20No.%2013-2021.pdf> (Link accessed 15 March 2024).

³⁴ See from <https://business.inquirer.net/325716/bir-sets-tougher-fines-penalties-for-tax-evasion> (Link accessed on 11 February 2024).

³⁵ Specified under Sections 264, 264-A, and 264-B of the Tax Code. <https://www.bir.gov.ph/tax-code> (Link accessed 15 March 2024).

³⁶ Sourced from https://lawphil.net/statutes/repacts/ra2019/pdf/ra_11251_2019.pdf (Link accessed on 11 February 2024).

exceeds PhP25 million per taxable year for each tax type covered, subject to a finding of probable cause by the competent authority.³⁷

3. **BIR's Run After Tax Evaders (RATE) Program.** The RATE program facilitates increased revenue collection, fosters public confidence, and increases voluntary compliance among taxpayers. Moreover, said program serves as an effective deterrent against tax evasion by penalizing tax evaders and increasing public awareness regarding the filing of criminal tax cases.³⁸
4. **BIR's Run After Fake Transactions (RAFT) Program.** The agency launched the RAFT program in March 2023 as the first campaign to investigate and prosecute purchasers, dealers, and certified public accountants who profit from propagating a culture of tax evasion via the use of fraudulent or ghost receipts.³⁹ Prior to the program's inception, the BIR had estimated a staggering revenue loss of at least PhP370 billion due to the proliferation of fake transactions using ghost receipts.
5. **Run After the Smugglers (RATS) Program.** The Bureau of Customs (BOC) established this in July 2005, and formally launched in 2006. RATS program is responsible for detecting and prosecuting smugglers and other customs and tariff code offenders.⁴⁰ Because they do not pay value-added tax and income tax, smugglers deprive the government of billions of dollars in revenue and enable them to sell counterfeit goods at unjustly reduced prices, driving legitimate companies out of business.⁴¹
6. **Whistleblower Provision for Tax Evasion.** Philippine legislation promotes citizens' involvement in reporting suspected cases of tax evasion. Specifically outlined in Section 282(A) of the Tax Code, individuals who provide information regarding tax fraud or evasion, not known to the BIR, may be rewarded. Informants are entitled to receive 10% of the recovered revenues, surcharges, fees, fines, or penalties, or up to PhP1 million per case, whichever amount is lower.⁴²

For smuggled goods, informers who play a key role in uncovering and confiscating said goods will receive a cash reward. This reward will be equivalent to either 10% of the market price of the smuggled and seized items or PhP1 million per case, whichever is lower. Importantly, the cash rewards received by informers will be subject to income tax, collected at a final withholding tax rate of 10%.⁴³

³⁷ The AMLA classifies tax evasion as a predicate offense to ML. Thus, in accordance with anti-money laundering regulations, the proceeds of tax evasion may be subject to seizure and investigation. See, <https://syCIPLawresources.com/wp-content/uploads/2021/04/SyCipLaw-Amendments-to-the-Anti-Money-Laundering-Act-RA-11521.pdf> (Link accessed on 11 February 2024).

³⁸ The BIR initiated a sequence of 246 RATE cases with the DOJ, each involving an estimated PHP14.73 billion in tax liabilities from July 2022 to October 2023. See, <https://www.dof.gov.ph/bir-intensifies-drive-to-increase-tax-compliance-combat-tax-evasion-under-dioknos-watch/> (Link accessed on 11 February 2024).

³⁹ Ghost Receipts are false receipts/invoices for transactions that did not occur. The intention is to decrease the purchaser's income tax and VAT responsibilities by claiming fake deductions and entering VAT on bogus transactions, resulting in tax fraud against the government. Sourced from, <https://bilyonaryo.com/2023/03/27/buyers-sellers-and-cpas-beware-bir-launches-offensive-against-ghost-receipts/business/> (Link accessed 11 February 2024).

⁴⁰ <https://www.dof.gov.ph/dof-to-work-with-doj-to-speed-up-resolution-of-635-smuggling-and-tax-cases-worth-p103-bto-review-tax-perks-totaling-p144-b/> (Link accessed 11 February 2024).

⁴¹ <https://opinion.inquirer.net/113666/taxes-smugglers-poor> (Link accessed 05 March 2024).

⁴² This is applicable to any person, except an internal revenue official or employee, or other public official or employee, or his relative within the sixth degree of consanguinity. See, <https://chanroble.com/legal6nircsections.htm> (Link accessed on 18 February 2024).

⁴³ *ibid*

7. Collaboration with Other Government Agencies.

- a) **Memorandum of Agreement (MOA) between the BIR, National Bureau of Investigation (NBI) and Philippine National Police Criminal Investigation and Detection Group (PNP CIDG).** The RATE program is a collaborative effort between the BIR, NBI, and PNP CIDG aimed at investigating, enforcing, and prosecuting tax evaders for maximum results. The BIR is entrusted, among other things, with the obligation of investigating and prosecuting tax evaders, in accordance with the President of the Philippines' mandate to pursue major tax evaders under the program. The NBI is tasked with providing effective and efficient investigative and support services through its committed and professional personnel; and the PNP CIDG is tasked with monitoring, investigating, and prosecuting all crimes involving economic sabotage and other crimes through a well-armed and well-equipped anti-crime unit.⁴⁴
- b) **MOA between the AMLC and BIR.** The MOA strives to promote and encourage cooperation and coordination to effectively prevent, control, detect, investigate, and prosecute ML activities, terrorism financing (TF) and unlawful activities in the country. Specific to the agreement, the AMLC may seek the help of the BIR in detecting and investigating ML operations and other breaches of the revised AMLA. Likewise, the BIR, may seek financial information, including bank records, in relation to any breach of laws that the tax agency is charged to execute.⁴⁵

8. International Cooperation.

Tax evasion often involves cross-border transactions and activities. The Philippines actively engages in international cooperation through treaties and agreements with other countries to combat tax evasion and ensure compliance with international tax standards.

- a. **Study Group on Asian Tax Administration and Research.** Established during the 5th Ministerial Conference for Economic Developments of Southeast Asia in 1970, this forum serves as a platform for tax planners and administrators across the region to exchange experiences and insights in shaping an ideal tax system. Membership does not entail a joining fee; instead, established members rotate hosting duties for the Annual Meeting and offer relevant secretariat support. The ten-member historical hosting order is as follows: The Philippines, People's Republic of China (PRC), Indonesia, Japan, Malaysia, Thailand, Republic of Korea, Australia, Singapore, and New Zealand.⁴⁶
- b. **OECD's Global Forum on Transparency and Exchange of Information (EOI) for Tax Purposes (Global Forum).** The Global Forum is the leading multilateral body with 171 members, including the Philippines, mandated to guarantee the adherence to transparency and EOI standards across global jurisdictions through a robust monitoring and peer review process.⁴⁷ The Global Forum facilitates an extensive capacity-building program to support its members in implementing the standards and help

⁴⁴ MOA – BIR, NBI, PNP CIDG. From, <https://birtaxinfo.wordpress.com/2010/03/19/bir-signs-moa-with-government-agencies/> (Link accessed, 11 February 2024).

⁴⁵ <https://mb.com.ph/2022/10/25/bir-amlc-ink-accord-to-combat-money-laundering/> (Link accessed, 11 February 2024).

⁴⁶ <https://www.nto.tax/profile/study-group-asia-pacific-tax-administration-and-research> (Link accessed 11 February 2024).

⁴⁷ <https://www.oecd.org/tax/transparency/> (Link accessed on 19 February 2024).

tax authorities make the best use of cross-border information sharing channels. Notably, the Philippines joined this Asia initiative as the 17th member, recommending the Bali Declaration, which is a call to enhance the use of tax transparency for sustainable domestic resource mobilisation in Asia.⁴⁸

As an update, the OECD recently published the following papers in addressing tax crimes:

- Tax Transparency in Asia 2023: Asia Initiative Progress Report;⁴⁹
- 2023 Global Forum Report: Pioneering Global Progress in Tax Transparency: A Journey of Transformation and Development;⁵⁰
- 2023 Global Forum Capacity Building Report: New Horizons in Capacity Building for Tax Transparency;⁵¹

c. Asia-Pacific Economic Cooperation (APEC). With 21 member economies, including the Philippines, this regional forum in the Asia-Pacific has emerged as a dynamic catalyst for economic growth. While the forum prioritizes efforts to diminish trade barriers and harmonize regulations, it has collaborated with the OECD in developing the ten universally applicable code requirements aimed at combating tax crimes. Drawing insights from the experiences of 31 countries, including nine APEC economies, this joint endeavor between the APEC and OECD aimed to enhance global efforts in effectively addressing tax-related offenses.

OBJECTIVES OF THE STUDY

The study aims to:

1. detect and deter tax crimes in the country through the use of financial information;
2. assess the impact of the inclusion of tax evasion as a predicate offense to ML, as per amended AMLA,⁵² on STR submissions;
3. identify new patterns in tax offenses, including the identification of emerging financial red flag indicators; and
4. share the findings of the study with relevant stakeholders, such as internal AMLC groups/divisions, appropriate LEAs, Supervising Authorities (SAs), Other Government Agencies (OGAs), private participants of the AMLC's Public-Private Partnership Program (PPPP), and respective FIUs of other jurisdictions with transactional links to the country as identified in the study.

⁴⁸<https://www.dof.gov.ph/the-philippines-reaffirms-its-commitment-to-international-tax-transparency-standards/> (Link accessed 11 February 2024).

⁴⁹ Published on 27 April 2023, this paper is the key outcome of the [Asia Initiative](#), a regional program launched in 2021 targeted on developing tailored solutions to ensure the implementation of the global tax transparency standards across Asia. See, <https://www.oecd.org/tax/transparency/documents/tax-transparency-in-asia-2023.pdf> (Link accessed on 19 February 2024).

⁵⁰ The Global Forum for 2023 intensified its monitoring and peer reviews of the international standards on transparency and exchange of information on request (EOIR) and automatic exchange of financial account information (AEOI). <https://www.oecd.org/tax/transparency/documents/global-forum-annual-report-2023.pdf> (Link accessed on 19 February 2024).

⁵¹ The report highlighted the Global Forum's capacity-building and outreach activities done in 2022 in support of the global implementation of the tax transparency standards EOIR and AEOI. See, <https://www.oecd.org/tax/transparency/documents/2023-Global-Forum-Capacity-Building-Report.pdf> (Link accessed on 19 February 2024).

⁵² The specific provision covered by the AMLA, as amended, under RA No. 11521, pertains to "Section 254 of Chapter II, Title X of the National Internal Revenue Code of 1997, as amended (Tax Code)." RA No. 11521, titled "An Act Further Strengthening the Anti-Money Laundering Law, amending for the Purpose RA No. 9160, Otherwise Known as the Anti-Money Laundering Act of 2001, As Amended", penalizes tax evasion exceeding PhP25 million. See, <https://www.officialgazette.gov.ph/downloads/2021/01jan/20210129-RA-11521-RRD.pdf>. Link accessed on 13 September 2023.

SCOPE AND METHODOLOGY

The research provides a detailed examination of STRs that were filed by various CPs from 01 January 2021 to 30 June 2023. The study utilized the following criteria for the dataset:

1. STRs filed under the PC35 or Violations of Section 254 of Chapter II, Title X of the National Internal Revenue Code of 1997, as amended, where the deficiency basic tax due in the final assessment is in excess of twenty-five million pesos (Php25,000,000.00) per taxable year, for each tax type covered and there has been a finding of probable cause by the competent authority; provided, further, that there must be a finding of fraud, willful misrepresentation or malicious intent on the part of the tax payer; provided, finally, 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.
2. STRs featuring tax-related keywords or phrases in their narrative sections, such as “tax”, “taxable”, “taxation”, “tax evasion”, “tax fraud”, “possible tax evasion, tax fraud or tax crime”, “may relate to tax evasion, tax fraud or tax crime”, “transactions may be unreported for tax purposes”, “income tax details deviate from the flow of transactions”.
3. STRs captured in tax crime-related Financial Intelligence Reports disseminated by the AMLC from 01 January 2021 to 30 June 2023.

The outlined criteria led to the generation of a dataset containing 19,794 STRs,⁵³ which include false positives⁵⁴ as well as generic-coded STRs.⁵⁵ Consequently, there was a need to individually assess the narratives accompanying the STRs to effectively filter out those not categorically associated with tax crimes,⁵⁶ as well as to ascertain the legitimacy and validity of the explanations provided by the CPs. Furthermore, the narrative review also facilitated a more detailed classification of the underlying triggers for the suspicious transaction reporting (i.e., proactive or reactive reporting).⁵⁷ Additionally, the dataset was streamlined by excluding generic-coded STRs to focus on completed or consummated transactions, enhancing the accuracy and relevance of the analysis. The outcome was a refined dataset that

⁵³ Criteria 1 and 2 generated 19,785 STRs, while criteria 3 generated 9 STRs.

⁵⁴ False positives pertain to STRs that contains tax-related keywords in the narrative sections but are not actually linked with tax-related crimes upon thorough evaluation of the details in the narratives.

⁵⁵ Generic-coded STRs include reports filed under the transaction codes ZSTR and ZSTRA. While ZSTRA is used to file attempted transactions, ZSTR is generally used for transactions filed on the basis of suspicious triggers (such as news report subjects, qualified theft, etc.), even when the subject has no financial transaction with the CP at the time the suspicious activity was determined. In some cases, CPs appear to be using the ZSTR code as a blanket transaction code to cover different transactions with varying dates of several subject, having a common connection (similar beneficiary/counterparty).

⁵⁶ STRs on legal and natural persons who are confirmed or suspected to be involved in tax evasion and other tax crimes were considered and not removed from the dataset.

⁵⁷ Before the updated ARRG was put into effect in 2022, CPs are not required to identify triggers for reporting STRs. However, starting 9 January 2022, proactive alerts must be labeled with the “STRA” file type, while reactive alerts use different file types: “STRB” for referrals from PPPPs, “C” for requests for KYC documents from the AMLC, “D” for triggers by AMLC Studies, “E” for watchlists, and “F” for freeze orders. <http://www.amlc.gov.ph/images/PDFs/2021-AMLC%20REGISTRATION%20AND%20REPORTING%20GUIDELINES.pdf> (Link accessed on 14 March 2024).

indicates, based on the narrative, a potential involvement in tax crimes. The final dataset comprises 9,413 STRs with an equivalent value of PhP18.99 billion.⁵⁸

STR data were also checked for completeness and consistency. Challenges posed by this method include lack of uniformity and completeness of the data submitted by different reporting entities to the AMLC. Thus, the data was further processed to reconcile multiple name variations of possibly one and the same person/entity using available identifiers such as address, date of birth or registration, identification number, and nationality. This was done to mitigate the risk of inaccuracies in the ranking of transacting entities or individuals caused by mere typographical errors. Factors that were considered when checking for name variations were double first names (e.g., JUAN DELA CRUZ and JUAN MIGUEL DELA CRUZ); missing middle names (e.g., JUAN AGONCILLO DELA CRUZ and JUAN DELA CRUZ); truncated names (e.g., JUAN DELA CRUZ and JUAN D.L. CRUZ); nearly identical spelling (e.g., JUAN DELA CRUZ and JUAN DELA CRUS); and variations in the order of components (e.g., JUAN DELA CRUZ and DELA CRUZ JUAN).

Additionally, specific addresses of the STR subjects were simplified to province-level tagging for locations outside Metro Manila, city-level tagging for locations within the National Capital Region (NCR), and country-level tagging for locations outside the Philippine jurisdiction. In cases where there is no clear address provided, the location was determined using data from other fields such as: 1) addresses submitted by other reporting entities for the same individual or entity; 2) the branch location of the reporting institution; 3) the correspondent bank address; and 4) location mentioned in the narratives of the STRs. If multiple subjects with different reported addresses were involved, both subject locations reported by the reporting institution were considered. Lastly, in cases where the location remained unidentified, the term 'Unknown' was used.

To facilitate analysis and comparison, the PhP value was employed as a reference currency throughout the study. The transaction and upload dates were also translated to the appropriate transaction and upload years. In addition to the data included in the STRs, this study used online-sourced information such as news stories and other research or studies on the topic, among others.

Furthermore, the analysis is guided by the following confidence level matrix and estimative language usage:

Analytic Judgments and Confidence Levels

FIU Intelligence Assessments use phrases such as “we judge,” “we assess” or “indicates” to convey analytical inferences (conclusions). These assessments are not statements of fact or proof, and do not imply complete knowledge. Analytic judgments are often based on incomplete information of varying quality, consistency, and reliability.

⁵⁸ The total amount does not encompass the PhP value attributable to insurance transactions, which are intricate due to various elements, such as policy amount, contract value, claim/dividend amounts, and annual premium payments. Based on the AMLC ARRG, insurance companies are not obligated to specify an amount under the STR value, as there are other necessary fields for documenting insurance transactions, including Amount of Claim/Dividend/CSV/Policy Loan, Policy Amount/Face Value/Contract Value/Sum Insured, and Amount of Annual Premium. This paper solely utilized the PhP value of the STR for statistical analysis. For informational purposes, it is noted that the combined value of annual premium payments for insurance transactions stands at PhP543.59 million, the total amount of claim is around PhP109.47 million, and the aggregate face value of the policies are PhP2.33 billion.

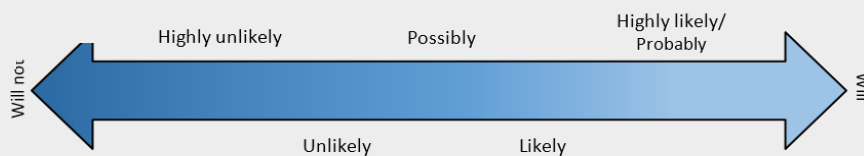
Analytic judgments are distinct from the underlying facts and assumptions in which they are based and should be understood as definitive or without alternative explanation.

The AMLC assigns “high,” “moderate”, or “low” confidence levels to analytic judgments based on the variety, scope, and quality of information supporting that judgment.

- **“High confidence”** generally indicates a judgment based on multiple, consistent, high-quality sources of information and/or that the nature of the issue makes it possible to render solid judgment.
- **“Moderate confidence”** generally means the information could be interpreted in various ways, we have alternative views, or the information is credible and plausible but not sufficiently corroborated to warrant a higher level of confidence.
- **“Low confidence”** generally means the information is scant, questionable, or very fragmented and it is difficult to make solid analytic inferences, or we have significant concerns or problems with the sources.

Estimative Language

Certain words are used in this assessment to convey confidence and analytical judgment regarding the probability of a development or event occurring. Judgments are often based on incomplete or fragmentary information and are not fact, proof, or knowledge. The figure below describes the relationship of the terms to each other.



Considering the foregoing data availability and limitations, a moderate level of confidence is given on the analytical judgment presented in the succeeding discussions of prominent and notable trends and typologies.

CAVEAT

The data provided in this report should not be interpreted as an assessment of the full amount of proceeds related to tax crimes. The inclusion of STRs, primarily focusing on transactions flagged under the PC35, assumes diligent reporting and categorization of tax crime-related activities by reporting entities. Additionally, STRs containing tax-related keywords or phrases in their narrative sections are incorporated to broaden the range of relevant reports. However, given the data's scope and limitations, it is probable that the extent of illicit funds associated with tax offenses surpasses what is depicted in the sample. Moreover, the statements herein are not conclusive but are more descriptive of what has been observed on the gathered STRs from January 2021 to June 2023. These STRs also need further verification and more in-depth investigation to substantiate likely linkage to tax crimes.

DEFINITION OF TERMS

The following terms used in this report are hereby defined as follows:⁵⁹

- **AMLA** - refers to RA No. 9160, as amended by RA Nos. 9194, 10167, 10365, 10927, and 11521.
- **AMLC** - refers to the Philippines' central AML/CFT authority and FIU, which is the government instrumentality mandated to implement the AMLA and TFP SA.
- **CP** - refers to natural or juridical persons regulated under the AMLA, such as, but not limited to, financial institutions, insurance companies and brokers, securities dealer, designated non-financial businesses and professions, real estate developers and brokers, and casinos.
- **Predicate Crime (PC)**- refers to the associated unlawful activities to ML defined under Section 3(i) of the AMLA.
- **STR** - refers to a report on a suspicious transaction filed by a CP before the AMLC.
- **Suspicious Circumstance (SC)** – interchangeable with the term Suspicious Indicator; refers to any of the following circumstances, the existence of which makes a transaction suspicious:
 - (1) there is no underlying legal or trade obligation, purpose or economic justification;
 - (2) the client is not properly identified;
 - (3) the amount involved is not commensurate with the business/financial capacity of the client;
 - (4) taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the AMLA;
 - (5) any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or the client's past transactions with the CP;
 - (6) the transaction is in any way related to ML/TF or related unlawful activity that is about to be committed, is being or has been committed;
 - (7) any transaction that is similar, analogous, or identical to any of the foregoing.

⁵⁹ The definitions of AMLA, AMLC, CPs, PCs, STRs, SCs were sourced from: <http://www.amlc.gov.ph/images/PDFs/2021-AMLC%20REGISTRATION%20AND%20REPORTING%20GUIDELINES.pdf> (accessed 04 March 2024).

DATA PROFILE

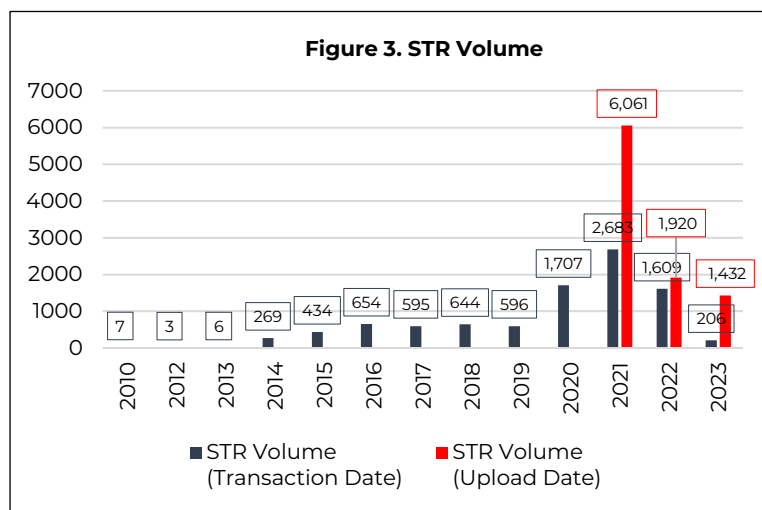
VOLUME & VALUE OF STR SUBMISSIONS

The inclusion of tax evasion as a predicate offense in the AMLA on 21 January 2021 marked a significant milestone, prompting CPs to initiate the filing of STRs related to tax crimes. This pivotal step coincided with the publication of the initial AMLC study on such criminal activities, indicating a synchronized effort to address financial illicit practices. In the year following this legislative update, it was noted that CPs submitted a total of 6,061 STRs. However, subsequent years witnessed a declining trend in tax crime-related transactions, with figures dropping to 1,920 in 2022 and further to 1,432 in 2023, as depicted in **Table 1**. Notably, this downward trend was mirrored in the corresponding value of STRs, which consistently decreased from PhP14.51 billion in 2021 to PhP2.46 billion in 2022, and further declined to PhP2.02 billion in the first half of 2023.

Table 1. Annual STR Breakdown from Jan 2021 - Jun 2023

Year	STR Volume	STR Value (in PhP millions)
2021	6,061	14,509
2022	1,920	2,457
2023	1,432	2,020
Total	9,413	18,986

The significant disparity observed in both the volume and value of STRs from 2021 to 2022 can be primarily attributed to the initiation of reporting entities submitting



STRs on tax-related offenses in 2021. Out of the 6,061 STRs filed in 2021, 68.31% pertain to transactions occurring between 2010 and 2020. This trend is clearly illustrated in **Figure 3**, which presents the volume of STRs categorized according to both the actual transaction date and the reporting date by CPs (upload date). The data demonstrates a clustering of STRs between years 2010 and 2020, predominantly reported in

2021, thereby accounting for the substantial increase in STR counts during that year.

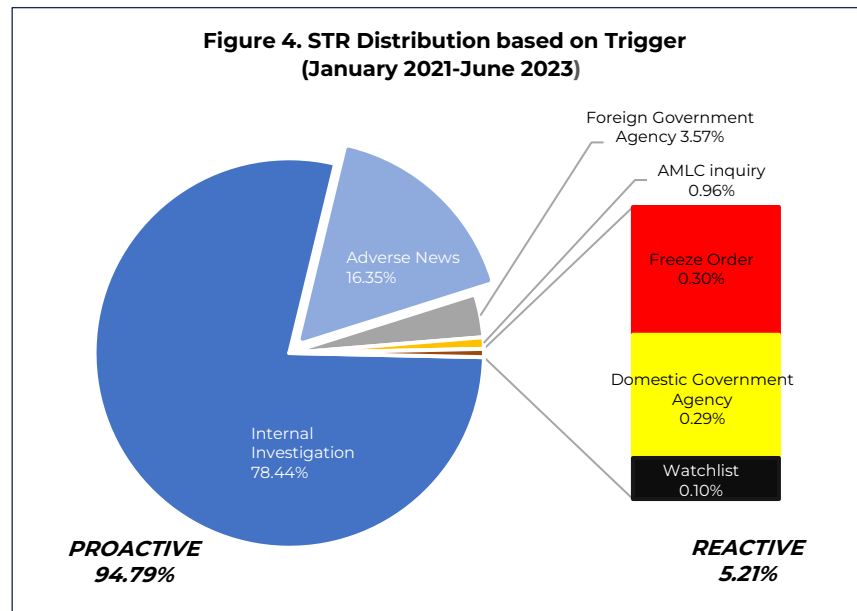
TRIGGER OF STR SUBMISSIONS

In this paper, STR submissions were categorized as either proactive or reactive, depending on the triggering factors for the disclosure of suspicious transactions.

Proactive reporting occurs when CPs take the initiative to report their clients' financial activities as STRs. This is typically achieved through internally developed detection processes, which may include internal investigations prompted by

monitoring rules and system alerts, staff referrals, regulatory recommendations, information from internal hotlines, or negative media coverage. In contrast, reactive reporting occurs when CPs receive information, inquiries, and referrals from external sources including the AMLC, foreign and domestic LEAs, government agencies, or other financial institutions.

Figure 4 illustrates that 94.79% of the dataset spanning the period January 2021 to June 2023 was submitted to the AMLC in a proactive manner. Notably, a significant proportion (78.44%) of these STRs were submitted by CPs in response to internal screenings and investigations carried out on customer transactions that exhibit attributes of tax evasion. In addition, 16.35% were influenced by adverse news from media pertaining to subjects involved in tax evasion cases.



On the other hand, only 5.21% of the STRs in the dataset were reactively reported by CPs. Within this subset, the majority (3.57%) were prompted by information obtained from foreign law enforcement agencies, which potentially aligns with data identified within a specific CP's transactions. The narrative accompanying these STRs suggests potential links to tax evasion due to various suspicious transactional indicators. These include transactions involving significant volumes, primarily occurring between Canada and higher-risk jurisdictions like the Philippines; transactions conducted jointly by individuals without shared surnames; and the consecutive transfer of multiple transactions to a single payee within a single business day, hinting at potential attempts to structure larger sums.

Following STRs triggered by referrals from foreign government agencies, those prompted by AMLC inquiries accounted for 0.96% of the total. This could be a result of the ongoing coordination between the AMLC's intelligence and investigation arms with CPs to collect information and financial records related to persons of interest (POIs) in tax evasion cases. Suspicious reports arising from freeze orders constituted 0.30% of the sum, while inquiries from domestic government agencies, specifically the BIR⁶⁰ and the BSP, accounted for 0.29%. Additionally, STRs resulting from inclusion of POIs in watchlists contributed 0.10% to the overall figure.

⁶⁰ This pertains to warrant of garnishment filed by the BIR. Section 208 of the Tax Code specified that to garnish bank accounts, a warrant must be served on both the taxpayer and the bank's president, management, treasurer, or responsible official. When a garnishment warrant is issued, the bank must give sufficient bank accounts to the Commissioner to fulfill the government's claim.

REASONS FOR STR SUBMISSIONS

CPs are mandated to indicate the basis for filing a specific STR, either by identifying a specific PC associated with the subject/transaction or by highlighting an SC observed in the client's transactional behavior or activity. This section outlines the various SCs and PCs utilized by CPs when submitting STRs related to tax evasion. It is important to emphasize that the only appropriate PC for tax evasion is PC35, which specifically describes the crime.

Analysis from **Table 2** reveals that majority of the STRs during the covered period fall under the SC category, both in terms of volume and PhP value, totaling 7,543 STRs (80.13%) and PhP18.35 billion (96.64%), respectively. On the other hand, tax crime related STRs filed under various PCs reached 1,870 (19.87%) in terms of count and PHP637.62 million (3.36%) in terms of value.

Table 2. Total Volume & Value of Various PCs & SCs from Jan 2021 to June 2023

Reason	Volume		Value	
	Count	Share to Total	PhP (in millions)	Share to Total
PREDICATE CRIME	1,870	19.87%	637.62	3.36%
PC35 Violations of the NIRC of 1997	1,032	10.96%	473.85	2.50%
PC9 Swindling	682	7.25%	113.31	0.60%
PC16 Frauds and Illegal Exactions and Transactions	41	0.44%	1.41	0.01%
PC3 Graft and Corrupt Practices	34	0.36%	42.93	0.23%
PC15 Bribery and Corruption of Public Officers	26	0.28%	-	0.00%
PC36 Felonies or Offenses of Similar Nature Punishable Under the Penal Laws of Other Countries	23	0.24%	0.97	0.01%
PC10 Smuggling	10	0.11%	0.06	0.00%
PC34 Violations of the Strategic Trade Management Act	10	0.11%	-	0.00%
PC33 Fraudulent Practices and Other Violations Under the Securities Regulations Code of 2000	8	0.08%	5.08	0.03%
PC4 Plunder	3	0.03%	-	0.00%
PC18 Forgeries and Counterfeiting	1	0.01%	-	0.00%
SUSPICIOUS CIRCUMSTANCE	7,543	80.13%	18,348.47	96.64%
SI3 The amount involved is not commensurate with the business or financial capacity of the client	5,242	55.69%	15,719.93	82.80%
SI1 There is no underlying legal or trade obligation, purpose, or economic justification	1,878	19.95%	2,310.64	12.17%
SI6 The transaction is similar, analogous, or identical to any of the foregoing	202	2.15%	102.83	0.54%
SI4 The transaction is structured to avoid being reported	120	1.27%	7.08	0.04%
SI5 There is a deviation from the client's profile/past transactions	83	0.88%	178.00	0.94%
SI2 The client is not properly identified	18	0.19%	29.99	0.16%
GRAND TOTAL	9,413	100.00%	18,986.09	100.00%

As illustrated in **Table 2**, 1,032 STRs, representing 10.96% of the dataset, were correctly filed under Violation of the NIRC of 1997 (PC35). Notably, 419 STRs valued at PhP293.67 million (40.60% of the total PC35 volume) can be attributed to STRs filed on an entity named Company A. Despite Company A conducting transactions spanning throughout 2022 and being reported only in November 2023, the company had already been identified by the tax authority as one of the corporations implicated in tax evasion in 2020. In connection with this, the STR narrative on Company A stated that the tax authority had initiated legal proceedings regarding the matter, alleging deliberate non-payment of the PhP67.04 million tax deficiency.

Furthermore, scrutiny of the narratives of STRs submitted under various PCs revealed instances of incorrect tagging for tax crime-related STRs. It was observed that the descriptions provided in the narratives of some STRs were found to be inconsistent with the reasons set by the CP. **Table 3** highlights the number of STRs that were erroneously categorized under a different PC.

Table 3. Incorrect Classification of Predicate Crimes⁶¹

Predicate Crime	Incorrect Tagging	% to Total Volume
PC16 Frauds and Illegal Exactions and Transactions	41	2.19%
PC34 Violations of the Strategic Trade Management Act	10	0.53%
PC3 Graft & Corrupt Practices	9	0.48%
PC9 Swindling	7	0.37%
PC36 Felonies or Offenses of Similar Nature Punishable Under the Penal Laws of Other Countries	4	0.21%
PC18 Forgeries and Counterfeiting	1	0.05%

Alternatively, properly categorized STRs demonstrate a link between tax evasion and various other PCs, such as Swindling, Graft and Corrupt Practices, and Smuggling, among others. This association arises from the fundamental principle that "irrespective of the origin of income, whether legitimate or illegitimate, all earnings are liable to taxation, rendering the non-payment of taxes on such income a criminal act."

Tax crime-related STRs labeled under Swindling mostly revolve around cases of non-payment of franchise taxes by certain companies, resulting in internal blacklisting by financial institutions. On the other hand, STRs under the Graft and Corrupt Practices were either filed against government officials engaged in irregularities in government activities (e.g., misdeclaration in SALN, irregularities in public bidding, falsification of reports), or against private entities and individuals who are linked to subjects of corruption cases. Additionally, STRs under Smuggling were mostly associated with the issue of sugar and rice smuggling in the country.

Among the various SCs considered when filing STRs, SI3 or *"the amount involved is not commensurate with the business or financial capacity of the client,"* emerged with the highest number of filed reports, totaling 5,242 STRs or 55.69% of the total volume. Following closely behind is SI1 labeled as *"there is no underlying legal or*

⁶¹ To calculate volume percentages, the number of erroneously classified PCs based on the narrative was divided by the total number of STRs categorized under PCs.

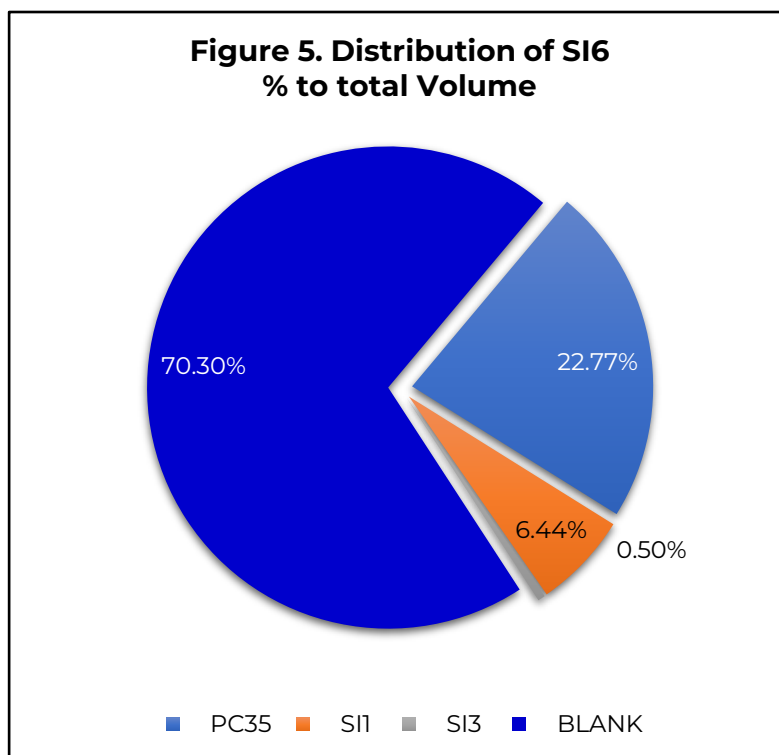
trade obligation, purpose, or economic justification,” with 1,878 STRs or a 19.95% share. Subsequently, SI6, identified as *“the transaction is similar, analogous, or identical to any of the foregoing,”* accounted for 202 counts or 2.15%.

In terms of PhP value, STRs under SI3 made the most substantial contribution to the total, amounting to PhP15.72 billion or 82.8%. SI1 followed with PhP2.31 billion or 12.17%, while SI5 identified as *“deviation from the client's profile”* contributed PhP178.0 million or 0.94%.

Regarding the proper application of SI6, the AMLC Registration and Reporting Guidelines (ARRG) emphasized the importance of ensuring unique rationale for suspicion before utilizing this indicator. The ARRG cited that when categorizing STRs under SI6, CPs should ensure that the reason for suspicion described therein are not identified with the features of other SCs or PCs. Moreover, SI6 should be followed by a semi-colon and the rationale for suspicion.⁶²

As illustrated in **Figure 5**, 70.30% of the SI6 aggregate (142 STRs) have no additional details. Moreover, the remaining STRs under SI6 should have been classified specifically as PC35, SI1, or SI3, with shares of 22.77%, 6.44%, and 0.50%, respectively. This demonstrates the continued misuse and abuse by CPs of SI6.⁶³

Likewise, a detailed examination of narratives associated with SI3 revealed that the majority of STRs were potentially related to tax evasion. Specifically, 99.69% of the STRs categorized under SI3 were associated with various tax evasion schemes, such as non-payment of tax returns, non-registration of businesses with the BIR, understatement of income for tax purposes, non-issuance of tax receipts and having multiple tax identification numbers. These could have been more accurately classified by the CPs as PC35, especially those reports on individuals accused of tax evasion by the tax authority. On the other hand, only 0.31% relate to insufficient evidence or a lack of supporting documentation to establish involvement in tax evasion.



⁶² Under General Guidelines, page 152 of the ARRG to be found at <http://www.amlc.gov.ph/images/PDFs/2021-AMLC%20REGISTRATION%20AND%20REPORTING%20GUIDELINES.pdf> (Link accessed 10 March 2024).

⁶³ This finding was highlighted in the AMLC Study titled *“Suspicious Transaction Report Quality Review (2017-2020)”* <http://www.amlc.gov.ph/publications/16-news-and-announcements/288-suspicious-transaction-report-quality-review-2017-to-2020-data-discovery> (Link accessed 11 March 2024).

FINANCIAL CHANNELS

The table below shows the industry classification of financial institutions typically used by potential subjects of tax evasion cases in their financial activities.

Table 4. Classification by Supervising Authority and Industry

Industry Classification	Volume		Value	
	Count	Share to Total	PhP (in millions)	Share to Total
BANGKO SENTRAL NG PILIPINAS	9,055	96.20%	18,985.09	99.99%
COMMERCIAL/NON-EXPANDED COMMERCIAL BANKS	7,868	83.59%	17,099.51	90.06%
DIGITAL BANK	48	0.51%	366.80	1.93%
ELECTRONIC MONEY ISSUER	4	0.04%	0.00	0.00%
MONEY SERVICE BUSINESSES	373	3.96%	4.71	0.02%
PAWNSHOPS	43	0.46%	1.42	0.01%
RURAL BANKS/COOPERATIVE RURAL BANKS	425	4.52%	20.26	0.11%
SAVINGS & MORTGAGE BANKS	283	3.01%	1,490.95	7.85%
SPECIALIZED GOVERNMENT BANKS	1	0.01%	0.00	0.00%
TRUST CORPORATION	2	0.02%	1.32	0.01%
VIRTUAL ASSET SERVICE PROVIDERS	8	0.08%	0.11	0.00%
INSURANCE COMMISSION (IC)	356	3.78%	0.00⁶⁴	0.00%
INSURANCE COMPANIES & PROFESSIONAL REINSURERS	356	3.78%	0.00	0.00%
PHIL AMUSEMENT AND GAMING CORPORATION	2	0.02%	1.00	0.01%
LAND-BASED	2	0.02%	1.00	0.01%
Total	9,413	100.00%	18,986.09	100.00%

As evident from the data above, bulk of the tax evasion-related STRs (96.20%) originated from institutions supervised by the BSP. On the other hand, entities regulated by the IC and Philippine Amusement and Gaming Corporation (PAGCOR) contributed only 3.78% and 0.02%, respectively. In terms of PhP value, BSP-monitored entities hold a significant proportion of 99.99%, equivalent to PhP18.99 billion.

Among the BSP-supervised entities, banks⁶⁵ collectively accounted for the majority of STRs, comprising 91.63% of the total volume and 99.95% of the total value of reported transactions. Commercial and non-expanded commercial banks emerged as the primary contributors, representing 83.59% of the total volume and 90.06% of the total value. Digital banks and savings and mortgage institutions, although contributing lesser volumes, still played significant roles in terms of value shares.

The dominance of commercial banks in reporting suspicious transactions can be attributed to their extensive networks and their capacity to handle high value transactions. However, the smaller players, such as digital banks and savings and mortgage institutions, also warrant attention due to their contributions to the overall value of reported transactions.

⁶⁴ The AMLC ARRAG outlines additional fields for documenting insurance transactions, including claim/dividend/CSV/policy loan, policy amount/face value/contract value/sum insured, and annual premium. In this study, only the PhP value of STRs was considered, thus revealing a reported value of zero from IC-supervised entities. Notably, annual premium payments total PhP543.59 million, total claims amounted to PhP109.47 million, and the face value of policies aggregated PhP2.33 billion.

⁶⁵ Banks comprise several sub-categories which includes commercial banks and non-expanded commercial banks, digital banks, rural banks, savings and mortgage banks, and specialized government banks.

EXAMINING TAX CRIMES: A STUDY OF SUSPICIOUS TRANSACTION REPORTS IN THE PHILIPPINES

Rural banks, money service businesses (MSBs) and insurance companies, ranking second to fourth, respectively, in terms of volume contribution to the study's dataset, accounted for 4.52%, 3.96% and 3.78%. Transactions through MSBs predominantly involve amounts below PhP10,000, totaling PhP4.71 million. Majority of these transactions (27 STRs totaling USD111.09, equivalent to PhP515,041) were filed by MSBI on Mr. RV, a business owner who failed to pay taxes.

SUMMARY OF TRANSACTION TYPES

The STRs associated with tax evasion encompassed 43 broadly classified transaction types. **Table 5** lists the top 20 transaction types based on PhP value, while the remaining 23 are collectively labeled as "Others".

Table 5. Transaction Types by Volume and PhP Value

Transaction Type	Volume		Value		Average Value (in millions)
	Count	Share to Total	PhP (in millions)	Share to Total	
CHECK DEPOSIT	911	9.68%	3,825.35	20.15%	4.199
INTERNATIONAL OUTWARD REMITTANCE	193	2.05%	3,599.91	18.96%	18.652
DOMESTIC INWARD REMITTANCE	149	1.58%	2,835.42	14.93%	19.030
CHECK CLEARING	494	5.25%	1,586.56	8.36%	3.212
CASH DEPOSIT	1,282	13.62%	1,538.94	8.11%	1.200
LOAN AVAILMENT	1,346	14.30%	1,364.57	7.19%	1.014
ENCASHMENT	299	3.18%	1,037.37	5.46%	3.469
LOAN PAYMENT	796	8.46%	811.91	4.28%	1.020
INTER-ACCOUNT TRANSFERS WITHIN SAME BANK	1,729	18.37%	682.02	3.59%	0.394
CREDIT CARD PAYMENT	130	1.38%	413.07	2.18%	3.177
PURCHASE OF MANAGER'S CHECK	17	0.18%	278.01	1.46%	16.354
DOMESTIC OUTWARD REMITTANCE	307	3.26%	265.03	1.40%	0.863
BUY FOREIGN EXCHANGE (DEBIT MEMO)	76	0.81%	196.47	1.03%	2.585
WITHDRAWALS	491	5.22%	182.19	0.96%	0.371
RETURNED CHECK	29	0.31%	131.28	0.69%	4.527
BILLS PURCHASE/DISCOUNTING (CREDIT MEMO)	24	0.25%	74.94	0.39%	3.123
INTERNATIONAL INWARD REMITTANCE	327	3.47%	63.2	0.33%	0.193
TIME DEPOSIT PAYMENT	53	0.56%	48.52	0.26%	0.915
TIME DEPOSIT PLACEMENT	30	0.32%	31.95	0.17%	1.065
ELECTRONIC CASH CARD WITHDRAWAL	161	1.71%	5.5	0.03%	0.034
OTHERS	569	6.04%	13.89	0.07%	0.024

In terms of STR volume, the top five transactions among potential subjects of tax crimes are as follows:

1. Inter-account transfers within the same bank account for 18.37% of the total;
2. Loan availments, accounting for 14.30%;
3. Cash deposits, constituting 13.62%;
4. Check deposits, representing 9.68%; and
5. Loan payments, comprising 8.46%.

Table 5 also provides the average values for these top financial transactions: PhP0.394 million for inter-account transfers within the same bank, PhP1.014 million for loan availments, PhP1.2 million for cash deposits, PhP4.199 million for check deposits, and PhP1.02 million for loan payments.

Based on the value of transactions, the top five transactions are as follows:

1. Check deposits, amounting to PhP3.83 billion or 20.15% of the total value;
2. International outward remittances, totaling PhP3.6 billion, representing 18.96% of the total;
3. Domestic inward remittances, totaling PhP2.84 billion or 14.93% of the total;
4. Check clearing, amounting to PhP1.59 billion or 8.36% of the total; and
5. Cash deposits, totaling PhP1.54 billion, representing 8.11% of the aggregate STR value.

The majority of the top three transactions were traced to the activities of Mr. XY. From 2019 to 2021, the subject accumulated 144 check deposit transactions totaling PhP2.19 billion, which represents 57.16% of the aggregate value of check transactions. Similarly, for international outward remittances, Mr. XY's account handled a significant amount of PhP3.39 billion, which were allegedly sent to accounts of clients and project managers of Company B, an online gaming service provider. Said amount accounted for 94.17% of the total PhP3.6 billion external outward remittances. These unusual and significant financial activities prompted several AML warnings to the CP.

Additionally, it was noted that cash transactions such as deposits and withdrawals⁶⁶ emerge as the predominant types from the STRs used in this dataset. This prevalence aligns with the inherent risk associated with cash transactions, as they have a propensity to obscure the audit trail.

Based on the perspective of the subject of the STR, individual transactions were further classified into three categories: inflow, outflow, or neutral transactions⁶⁷. As

Table 6. Types of Transactions

Transaction Types	Volume		Value	
	Count	Share to Total	PhP (in millions)	Share to Total
INFLOW	4,432	47.08%	9,779.46	51.51%
OUTFLOW	3,065	32.56%	8,376.50	44.12%
NEUTRAL	1,916	20.35%	830.13	4.37%
Total	9,413	100.00%	18,986.09	100.00%

presented in **Table 6**, net inflow transactions aggregated to 1,367 STR counts, representing 14.52% of the total volume in the study. Correspondingly, due to the prevalence of inflow transactions over outflow, the net inflow in terms of PhP value reached PhP1.40 billion, constituting 7.39% of the overall total.

⁶⁶ In this dataset, cash deposits and withdrawals would generate 1,773 STRs (18.84%) in volume and PhP1.72 billion in value (9.07%).

⁶⁷ Transaction flows were also determined in accordance with the AMLC ARRG and the perceived flow of the transaction, considering the nature of the products involved (e.g., investment-related, remittance-related, as well as deposit and withdrawal transactions, among others). Specifically, neutral transactions are financial activities that neither increase nor decrease an entity's overall financial position. They are not classified as inflows or outflows but involve internal transfers or exchanges within the same entity or system, maintaining a balanced state.

VALUE OF TRANSACTIONS

The STRs in the dataset were grouped into eight PhP value categories, as illustrated in **Table 7**.

Table 7. Breakdown of STRs by Transaction Amount Range

Transaction Amount	Volume		Value	
	Count	Share to Total	PhP (in millions)	Share to Total
Nominal	374	3.97%	0.00	0.00%
Below PhP10,000	1,202	12.77%	4.92	0.03%
PhP10,000 to less than PhP100,000	1,976	20.99%	74.88	0.39%
PhP100,000 to less than PhP500,000	1,558	16.55%	421.32	2.22%
PhP500,000 to less than PhP1 million	1,353	14.37%	923.83	4.87%
PhP1 million to less than PhP10 million	2,699	28.67%	6,384.26	33.63%
PhP10 million to less than PhP25 million	150	1.59%	2,233.26	11.76%
PhP25 million and above	101	1.07%	8,943.63	47.11%
Total	9,413	100.00%	18,986.09	100.00%

Nominal values

About 3.97% of the total STRs have nominal values, ranging from PhP1 or less. Entities supervised by the IC contribute 95.19% to the total STRs in this bracket.⁶⁸ The top three transaction types for this category are premium/plan payments through wire/fund transfers (14.97%), receipt of initial payment for insurance policies (13.90%), and purchase of life insurance policies with investment components using cash (10.70%).

Below PhP10,000

This bracket represents 12.77% of the total volume and 0.03% of the total PhP value of STRs in the study's dataset. The predominant transaction type within this range is inter-account transfers within the same bank, accounting for 32.70% (393 STRs) of the total volume. This transaction type alone generated PhP2.04 million, which constitutes 41.41% of the total value for this category. The second largest transaction type for this bracket is international inward remittances (advice and pay beneficiary), contributing 13.39% (161 STRs) to the volume and 18.32% (PhP0.90 million) to the total value.

PhP10,000 to less than PhP100,000

This category constitutes 20.99% of the overall volume and 0.39% of the total PhP value of STRs in the dataset. The predominant transaction within this segment involves inter-account transfers within the same bank, constituting 35.73% (706 STRs) of the total volume within this range. These transfers accumulated a total of PhP25.45 million, representing 33.99% of the entire value within this category. Following this, cash deposits account for 11.29% (223 STRs) of the total volume,

⁶⁸ The AMLC ARRG specifies that there are other fields to be used for reporting insurance transactions (i.e., amount of claim, policy amount, and annual premium). However, this study solely utilized the PhP value of STRs, thereby resulting in a reported value of zero for IC-supervised entities. Notably, annual premium payments total PhP543.59 million, total claims amounted to PhP109.47 million, and the face value of policies aggregated PhP2.33 billion.

contributing PhP9.33 million (12.46%) to the overall value. Additionally, check clearing transactions comprise 9.31% (186 STRs) of the volume and contribute 10.08% (PhP7.55 million) to the value.

PhP100,000 to less than PhP500,000

This range bracket represents a significant portion (16.55%) of the total volume of STRs in the study's dataset. Cash deposits emerge as the most prevalent transaction type within this category, constituting 20.35% (317 STRs) of the collective volume. Notably, these deposits alone generated a substantial sum of PhP84.91 million, reflecting a significant 20.15% of the total value within this category. The second most common transaction type within this bracket involves transfers between accounts within the same bank, contributing 19.58% (305 STRs) to the volume and 16.58% (PhP69.84 million) to the total value. Additionally, loan payment transactions conducted through various credit cards, debit cards, and online banking channels account for 9.11% of the total volume (142 STRs) and contribute 10.30% (PhP43.31 million) of the total value.

Noteworthy is the case of spouses AB, owners of a clothing materials wholesaler/dealer company named C-Trading. Their company recorded the highest cash deposit transaction total within this bracket, amassing PhP36.29 million (8.61%) across 124 STRs (7.96%). Following an investigation by the reporting institution, it was revealed that the spouses' reported annual income was largely disproportionate to the account's inflows and outflows.

PhP500,000 to less than PhP1 million

Around 14.37% of the total STR volume in the dataset have individual transaction amounts between PhP500,000 and PhP1 million. The majority of these are loan payments through manager's check, accounting for 18.99% (257 STRs) of the total volume and 19.16% (PhP117.04 million) of the total value in this category. Loan avancement transactions through credit memos make up the second largest transaction type for this bracket, contributing 18.18% (246 STRs) to the volume and 18.15% (PhP167.72 million) to the total PhP value. Additionally, cash deposits comprise 17% (230 STRs) of the total volume and contribute 17.56% (PhP162.19 million) to the overall value.

In terms of STR volume and PhP value, it was observed that most STRs falling within this bracket are filed by Bank A, with a total of 948 STRs (70.07%) at an estimated value of PhP647.19 million (70.05%). This is followed by STR filings of Bank B and Bank C having a total estimated PhP value of PhP117.27 million (12.69%) and PhP92.65 million (10.03%), respectively.

PhP1 million to less than PhP10 million

This segment represents about 28.67% of the overall volume and 33.63% of the total PhP value in the dataset. Within this range, cash deposits are the most prevalent type of transaction, accounting for 16.64% (449 STRs) of the total volume. These cash deposits alone accumulated a significant sum of PhP925.85 million, comprising 14.50% of the total value for this category. Following this, loan avancement transactions through credit memo emerge as the second-largest transaction type, contributing 13.89% (375 STRs) to the volume and 9.39% (PhP599.67 million) to the total value.

Subsequently, loan payments made through various credit cards, debit cards, and online banking channels represent 13.60% of the total volume, with 367 transactions. In terms of value, they contribute 9.23% or PhP589.53 million.

Over a fifth (21.55%) of the total PhP value within this category comes from STR filings related to Ms. Z and associates. Similarly, Ms. Z and associates account for 32.01% (864 STRs) of the total STR volume in the dataset.

PhP10 million to less than PhP25 million

This bracket comprises 1.59% of the total volume and 11.76% of the overall PhP value of STRs analyzed in the study. The predominant transaction type within this category is check deposits, accounting for 40.67% (61 STRs) of the total volume. These deposits resulted in a total of PhP940.89 million, representing 42.13% of the total value in this category. Encashments rank as the second most common transaction type, constituting 16% (24 STRs) of the volume and contributing 1.27% (PhP296.42 million) to the overall value. Moreover, domestic remittances via direct fund transfers to beneficiaries' accounts make up 12% (18 STRs) of the total volume and contribute 13.85% (PhP309.33 million) to the total value.

Despite the relatively low volume in this group, it is predominantly influenced by STRs on Mr. XY, holding a 62.92% share of the total PhP value (PhP1.40 billion), with 86 STRs (57.33%). Mr. XY was flagged by the CP for his substantial and unusual transactions, raising concerns about potential tax evasion.

PhP25 million and above

This range accounts for 1.07% of the overall volume and 47.11% of the total PhP value in the dataset. The most common transaction type in this category is inward domestic remittances (credit to beneficiary's account), consisting of 33.66% (34 STRs) of the overall volume and 25.25% (PhP2.2 billion) of the total value within this category. Following this, cash deposits emerge as the second most significant transaction for this group, comprising 23.76% (24 STRs) of the volume and 12.29% (PhP1.1 billion) of the overall value. Additionally, international outward remittances represent 17.82% (18 STRs) of the total volume and 38.28% (PhP3.42 billion) of the total value.

Majority of transactions within this group were filings on Mr. XY, who possesses multiple TINs, with 83 STRs (82.18%) having an aggregate PhP value of PhP7.11 billion (81.97%).

SUBJECT BY LOCATION

The data from the study's dataset indicates a clear trend where a significant proportion of the STRs, accounting for 97.99%, involve individuals or entities residing in the Philippines. The remaining 2.01% of the reports are associated with subjects from various countries including Singapore,

Table 8. By Country

Country	Volume		Value	
	Count	Share to Total	PhP (in millions)	Share to Total
Philippines	9,224	97.99%	18,818.78	99.12%
Singapore	176	1.87%	165.39	0.87%
UAE	9	0.10%	0.90	0.00%
Japan	3	0.03%	1.02	0.01%
PRC	1	0.01%	-	0.00%
Total	9,413	100.00%	18,986.09	100.00%

EXAMINING TAX CRIMES: A STUDY OF SUSPICIOUS TRANSACTION REPORTS IN THE PHILIPPINES

United Arab Emirates (UAE), Japan, and PRC. Notably, the Philippines stands out in terms of peso value, accounting for 99.12%. This suggests that most potential tax crimes reported to the AMLC are primarily perpetrated by Filipino nationals.

Focusing on the country with the highest volume and value share to total, the Philippines contributed 9,224 STRs totaling PhP18.82 billion. **Table 9** presents the breakdown of STRs in terms of volume, PhP value and average value per Philippine province.

Table 9. By Philippine Provinces

Philippine Provinces	Volume		Value		Average Value	
	Count	Share to Total	PhP (in millions)	Share to Total	PhP (in millions)	Rank
Metro Manila	8,097	87.78%	18,346.11	97.49%	2.27	2
Pangasinan	227	2.46%	8.36	0.04%	0.04	17
Negros Occidental	151	1.64%	27.50	0.15%	0.18	15
Iloilo	127	1.38%	55.04	0.29%	0.43	8
Pampanga	114	1.24%	35.66	0.19%	0.31	11
Benguet	99	1.07%	10.87	0.06%	0.11	16
Rizal	88	0.95%	28.32	0.15%	0.32	10
Cebu	67	0.73%	84.53	0.45%	1.26	5
Nueva Ecija	33	0.36%	54.82	0.29%	1.66	4
La Union	31	0.34%	0.29	0.00%	0.01	18
Batangas	25	0.27%	5.96	0.03%	0.24	12
Davao Del Sur	24	0.26%	9.77	0.05%	0.41	9
Bulacan	24	0.26%	78.97	0.42%	3.29	1
Laguna	23	0.25%	24.75	0.13%	1.08	6
Cavite	21	0.23%	36.70	0.20%	1.75	3
Kalinga	13	0.14%	0.04	0.00%	0.00	19
Cagayan	11	0.12%	2.15	0.01%	0.20	14
Misamis Oriental	7	0.08%	3.85	0.02%	0.55	7
Misamis Occidental	5	0.05%	0.00	0.00%	0.00	20
Albay	5	0.05%	0.00	0.00%	0.00	20
Palawan	5	0.05%	0.00	0.00%	0.00	20
South Cotabato	4	0.04%	0.00	0.00%	0.00	20
<i>Others (16)</i>	23	0.25%	5.09	0.03%	0.22	13
Total	9,224	100.00%	18,818.78	100.00%	2.04	-

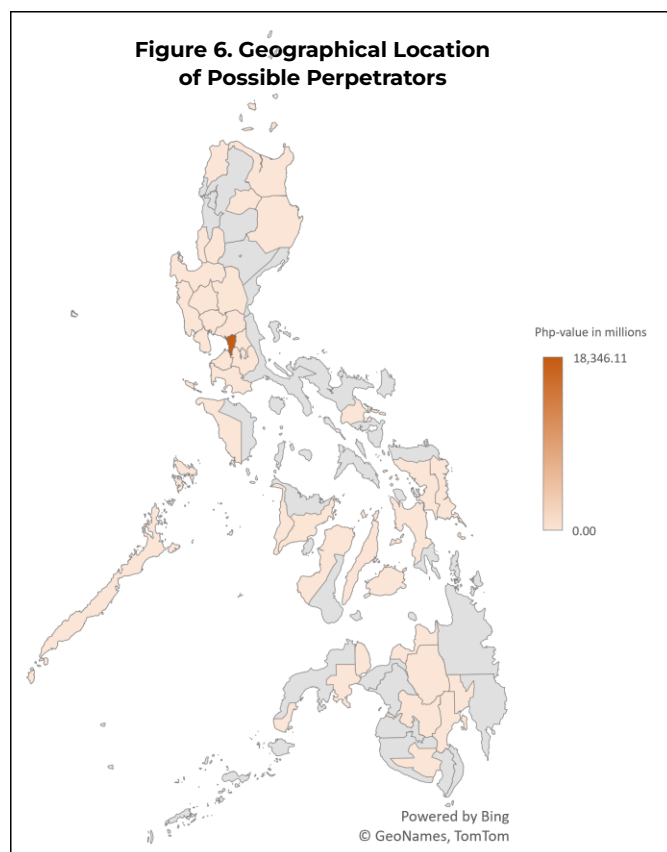
As can be gleaned from the table above, Metro Manila ranked 1st in terms of volume and PhP value with 8,097 STRs (87.78% of total count) totaling PhP18.35 billion (97.49% of the total amount). The significant dominance of Metro Manila can be possibly attributed to various factors, including its status as the central hub of business and industry in the Philippines.⁶⁹ The concentration of economic entities in the region naturally leads to a higher likelihood of transactions occurring, including instances of tax evasion.

Looking at the STR count, Pangasinan sits at the second highest with 277 STRs (2.46% of the total). This is immediately followed by Negros Occidental and Iloilo

⁶⁹ <https://psa.gov.ph/content/more-108-million-establishments-operated-2021-which-generated-total-employment-857-million>
(Link accessed 11 April 2024)

EXAMINING TAX CRIMES: A STUDY OF SUSPICIOUS TRANSACTION REPORTS IN THE PHILIPPINES

contributing 151 (1.64%) and 127 STRs (1.38%), respectively. In terms of PhP value, Cebu ranked second amounting to PhP84.53 million (0.45% of total). This is followed by Bulacan and Iloilo totaling PhP78.97 million (0.42%) and PhP55.04 million (0.29%), respectively.



Despite ranking 13th in transaction volume and 3rd in terms of PhP value, Bulacan takes the lead as the province with the highest average transaction value, reaching PhP3.29 million. Notably, the aggregate STR value for Bulacan, totaling PhP78.97 million, represents only around 0.43% of the total amount for Metro Manila, which stands at PhP18.35 billion.

Upon closer examination of Bulacan's transactions, it becomes evident that a significant portion (81.63%) stems from the activities of a single corporation, Company D. Said corporation specializes in the retail and wholesale trade of empty liquor bottles, which are later being sold to a specific distillery. However, these transactions have drawn scrutiny, as reports indicate that the tax authority has issued a warrant of

garnishment against the accounts of the individual managing the business. Furthermore, it has been disclosed that any fund transfers made prior to receiving the warrant may be linked to the tax obligations of the individual.

Table 10. By Metropolitan Area

Metro Manila Cities	Volume		Value		Average Value	
	Count	Share to Total	PhP (in millions)	Share to Total	PhP (in millions)	Rank
Mandaluyong	3,584	44.26%	2,930.76	15.97%	0.82	11
Makati	1,599	19.75%	10,197.86	55.59%	6.38	1
Manila	1,350	16.67%	3,369.26	18.36%	2.5	3
Quezon City	842	10.40%	843.6	4.60%	1	10
Pasay	388	4.79%	574.36	3.13%	1.48	7
Pasig	135	1.67%	270.06	1.47%	2	4
Taguig	56	0.69%	65.81	0.36%	1.18	8
Valenzuela	39	0.48%	5.93	0.03%	0.15	15
Paranaque	28	0.35%	7.17	0.04%	0.26	12
Caloocan	26	0.32%	5.36	0.03%	0.21	13
Marikina	15	0.19%	27.17	0.15%	1.81	6
San Juan	12	0.15%	1.88	0.01%	0.16	14

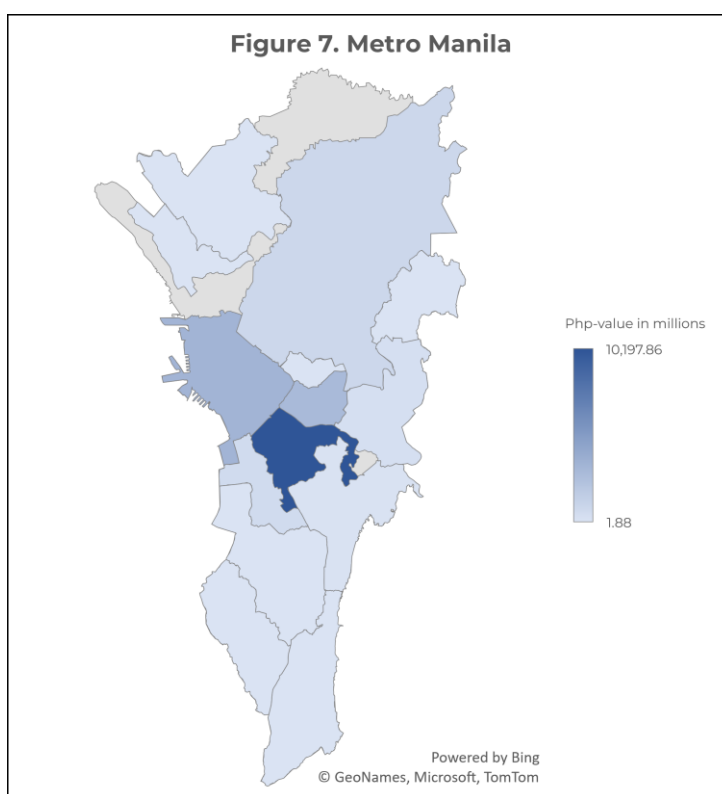
EXAMINING TAX CRIMES: A STUDY OF SUSPICIOUS TRANSACTION REPORTS IN THE PHILIPPINES

Metro Manila Cities	Volume		Value		Average Value	
	Count	Share to Total	PhP (in millions)	Share to Total	PhP (in millions)	Rank
Las Pinas	9	0.11%	9.33	0.05%	1.04	9
Malabon	7	0.09%	13.54	0.07%	1.93	5
Muntinlupa	7	0.09%	24.01	0.13%	3.43	2
Total	8,097	100.00%	18,346.11	100.00%	2.27	-

It is also worth looking into the breakdown per city of the metropolitan area given its substantial contribution to the total STR volume and PhP value. As depicted in **Table 10**, Mandaluyong stands out with the highest number of STRs, accounting for 44.26% of the total 8,097 STRs in the entire metro. This is primarily due to Ms. Z, who holds the highest number of STRs in this city. STRs related to said POI account for 23.26% (1,883 STRs) of our dataset for Metro Manila. Additionally, there are 1,681 STRs (20.76% of the total) reported on accounts associated with Ms. Z, resulting in a combined total of 44.02% of all STRs in the dataset for Metro Manila.

Following Mandaluyong City are Makati, Manila, and Quezon City, contributing 19.75%, 16.67%, and 10.40% respectively, to the overall count.

In terms of PhP value, Makati leads the list with 55.59% or PhP10.19 billion. The primary contributor for Makati is Mr. XY, residing in D Village, who is the dataset's top subject in terms of value. His transactions came under scrutiny due to multiple discrepancies in the details provided in the documents submitted for bank account opening, such as nationality and TIN ID number. Additionally, his profile and transactions did not align with his assessed business capacity.



Following Makati City would be Manila, Mandaluyong, and Quezon City, contributing 18.36%, 15.97%, and 4.60% to the aggregate PhP value, respectively.

Based on the average amount per STR, Makati ranked 1st among the cities of Metro Manila averaging PhP6.38 million per STR. This is then followed by Muntinlupa and Manila at PhP3.43 million and PhP2.50 million per STR, respectively. Although Mandaluyong ranked 1st in terms of volume and 3rd in total PhP value, it only ranked 11th in terms of average amount per STR.

TAX CRIME TYPOLOGIES

Unusual Transaction Pattern Linked to Online Gaming Service Providers

Eleven business entities and fourteen individuals were identified in 392 STRs related to potential tax evasion activities, amounting to around PhP9.58 billion. This represents 4.16% of the total STR volume and 50.46% of the total STR value within the study's dataset. Mr. XY emerged as a core figure in these transactions. He holds the position of President at Company B and is involved in other various businesses engaged in real estate and online gaming services.

Figure 8. Mr. XY's Transaction

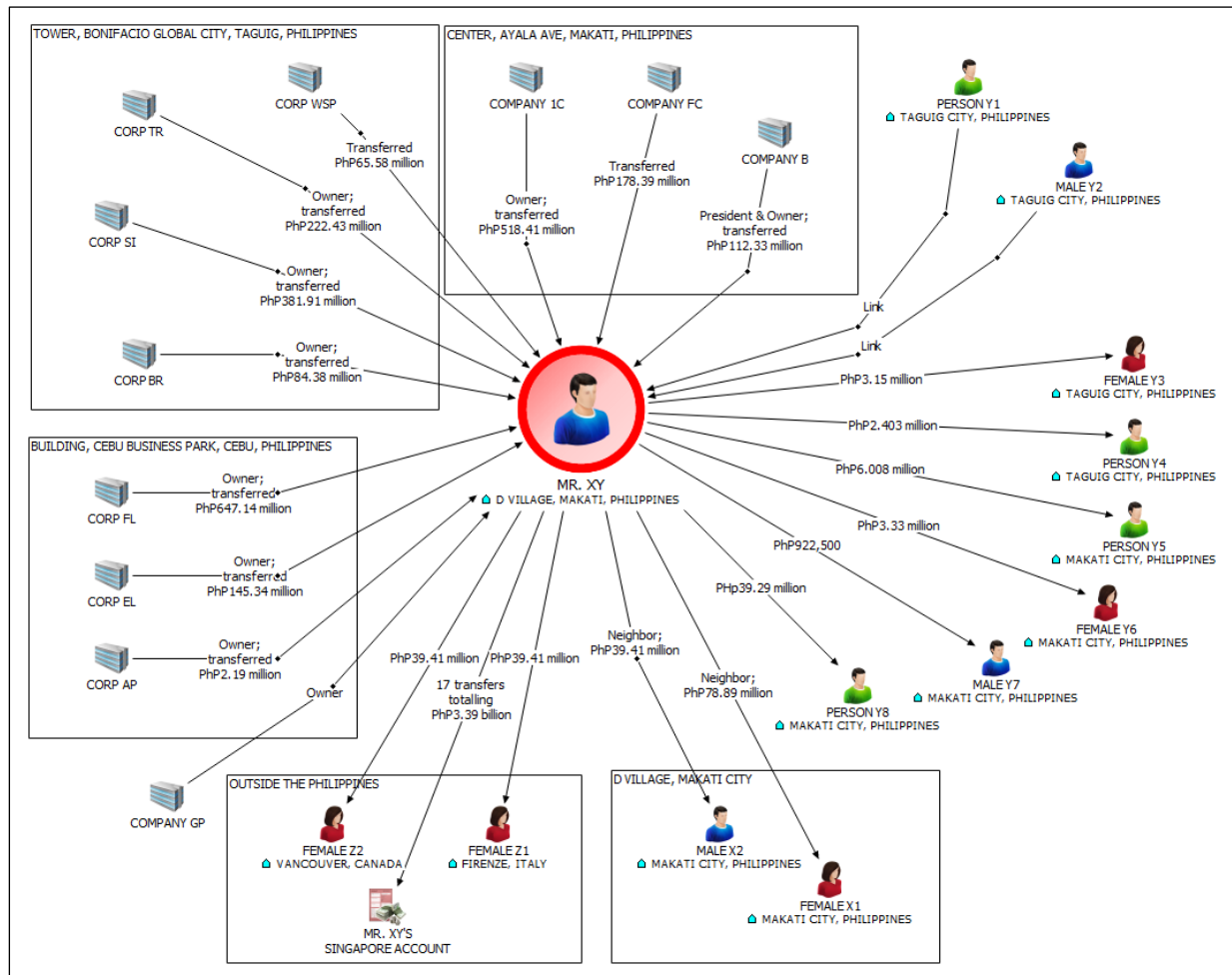


Figure 8 presents significant incoming transfers from corporations predominantly owned by Mr. XY. Additionally, several notable outgoing transfers were made to various individuals within and outside the Philippine jurisdiction. According to the submitted STR narrative, the beneficiaries of funds from Mr. XY's account are alleged clients abroad as well as project managers of Company B. However, transactions involving the substantial fund movements lacked appropriate documentation, such as Senior Management approval forms, indicating a lack of transparency and oversight. Although additional documents like business papers and audited financial statements were provided, they failed to justify the magnitude of the transactions, suggesting potential attempts to conceal the true nature of the funds.

Furthermore, review of documents uncovered discrepancies in Mr. XY's nationality, casting doubt on the authenticity of the provided information. While the passport submitted during account opening indicated Antiguan and Barbudan nationality, business documents declared Chinese nationality. Mr. XY's possession of multiple TINs further adds to the complexity and suspicion surrounding his financial affairs, with inconsistencies observed across different documents.

The combination of unusual transaction patterns, lack of appropriate documentation, discrepancies in client information, and possession of multiple TINs indicate a high risk of tax evasion and ML by the subject. Further investigation and enhanced due diligence are warranted to determine the source and legitimacy of the funds involved and to mitigate potential legal and reputational risks for the bank.

Using a Sister Company's Account as Cash Conduit for Global Suppliers

Between 2021 and 2022, three individuals and two sister companies engaged in a series of suspicious transactions totaling PhP1.44 billion. These transactions primarily comprised cash deposits amounting to PhP629.31 million, followed by encashments totaling PhP431.52 million, foreign exchange-debit memo purchases worth PhP196.43 million, and check deposits of PhP180.68 million.

Table 11. Summary of Transaction Types

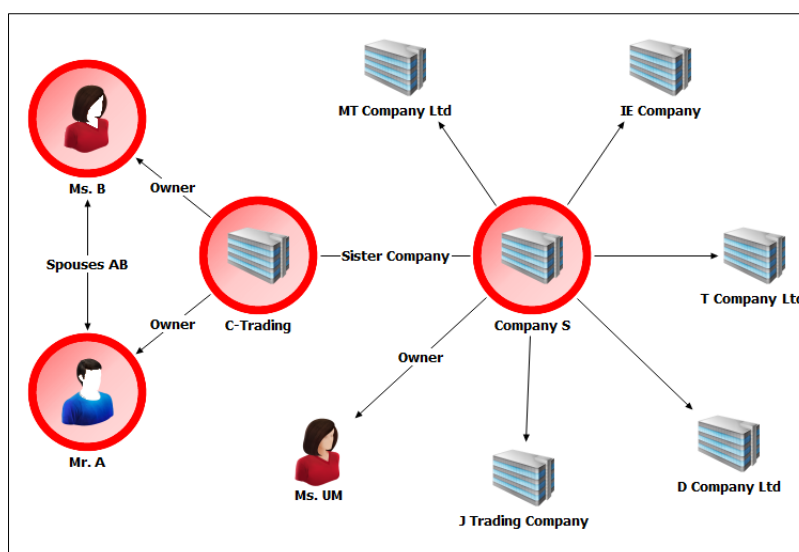
Transaction Types	2021		2022		TOTAL	
	Volume	Value (in PhP Millions)	Volume	Value (in PhP Millions)	Volume	Value (in PhP Millions)
CASH DEPOSIT	267	272.92	317	356.38	584	629.31
ENCASHMENT	97	420.24	2	11.29	99	431.52
BUY FX (DEBIT MEMO)	-	-	33	196.43	33	196.43
CHECK DEPOSIT	31	152.50	15	28.18	46	180.68
TOTAL	395	845.66	367	592.28	762	1,437.94

Spouses AB, the owners of C-Trading, were flagged by the CP for potential involvement in suspicious activities concerning significant cash transactions upon opening their account. Upon conducting review of the subjects' account, the CP noted that C-Trading only reported an annual income of PhP1.4 million in their 2021 annual financial statements, despite having an expected gross monthly income ranging from PhP220 million to PhP300 million. Further investigation uncovered understated sales income of PhP1.6 billion for 2020 and PhP920 million for 2019, which resulted to understatement of income tax due.

C-Trading operates as a sole proprietorship, specializing in wholesale clothing materials and equipped with storage facilities. It was discovered that funds from C-Trading's accounts were being transferred to its sister company named Company S. Company S, which is accredited by the BOC, facilitates telegraphic transfers and importation transactions for C-Trading. Company S therefore acts as the intermediary of the latter's importation requirement for textile products.

In the specific case of Company S, its accounts were flagged during an AML review conducted by the CP in August 2022. Examination revealed that cash deposits into their peso account primarily occurred through over-the-counter transactions, ranging from PhP832,000 to PhP2.79 million, purportedly declared as sales proceeds. These deposits originated in both Manila and Taytay, where C-Trading's Branch of Account is located. Subsequently, these cash deposits were converted into dollars and credited to Company S's dollar account. Despite requests for supporting documentation regarding the source of cash transactions, the majority remained unprovided, suggesting a pass-through account setup. This arrangement implies a potential layering mechanism in the ML process. Overall, transactions between C-Trading and Company S raised multiple red flags associated with ML, including inconsistent large cash transactions, incomplete documentation, disproportionate transactions, and possible tax evasion.

Figure 9. Transaction Flow of C-Trading and Company S



Vloggers' Attempt to Conceal Income

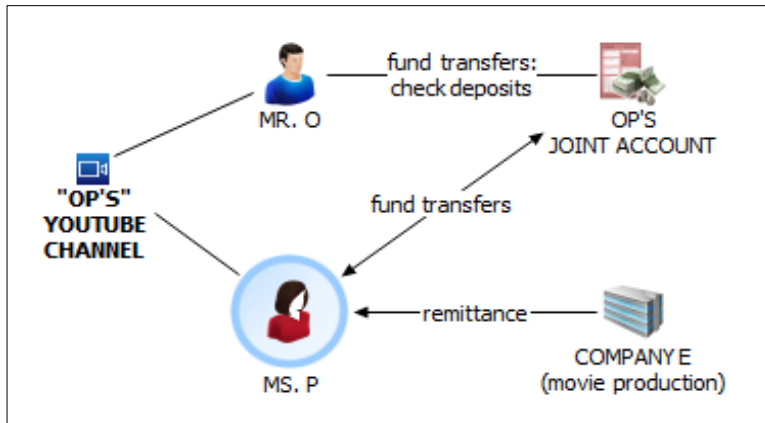
On 16 August 2021, the Philippine tax authority issued a memorandum circular, aiming to clarify the tax obligations of social media influencers. The memorandum serves as a reminder for influencers to fulfill their tax duties, including payment, registration, and submission of reportorial requirements, while emphasizing the potential consequences for non-compliance. Furthermore, the tax authority directed its officers to initiate comprehensive tax investigations targeting social media influencers.

Following this issuance, the vlogger couple Mr. O and Ms. P, popularly known as 'OP', unexpectedly deleted their YouTube channel with twelve million subscribers, stirring concerns among the authorities regarding potential tax evasion. According to the tax authority, the couple allegedly earned between PhP50 and PhP100 million from YouTube over the past two years. It was further stated that deactivating one's YouTube channel does not imply an escape from taxes.

Based on the study's dataset, there were 28 STRs filed on the vlogger couple totaling PhP44.65 million. Majority of the questionable transactions were inter-account transfers between OP's joint account and the individual bank account of Ms. P. Additionally, there were also cash and check deposits, over-the-counter withdrawals, and an international inward remittance from an entity named Company E.

According to the CP, the fund transfers to or from OP's own accounts possibly indicate attempts to obscure the source or destination of funds (**Figure 10**). It was

Figure 10. Transaction Flow of Vlogger OP



also noted that Ms. P received an international remittance of roughly about PhP1 million from Company E, which based on open source, appeared to be involved in film productions. Furthermore, the CP has stated that no corroborating documentation was furnished, which precludes the verification of the funds' genuine origin, intended use, and rationale.

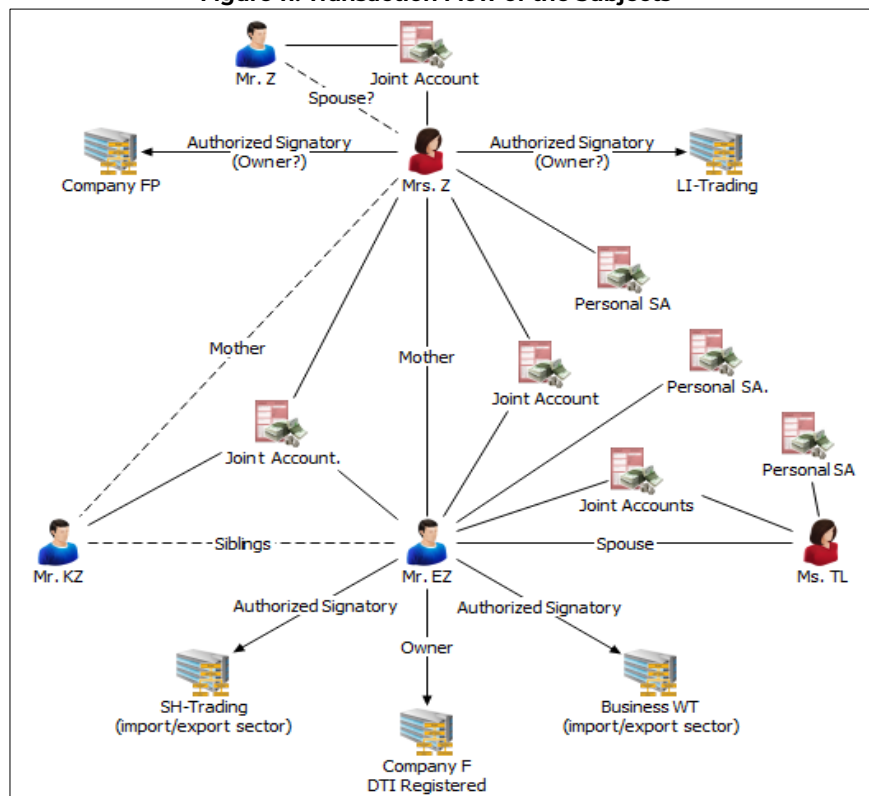
Possible Misuse of Personal Accounts for Business-Related Transactions

Bank A reported 3,564 STRs totaling PhP2.91 billion filed against a group of related individuals, namely Mr. EZ, Ms. TL, Mr.KZ, and Mrs. Z. Said subjects were flagged by the CP for using personal accounts for business transactions.

Mr. EZ owns Company F, an entity registered with the Department of Trade and Industry (DTI), declaring a monthly income ranging from PhP140,001 to PhP250,000. In 2019, his business reported gross sales revenue of PhP2,694,123 with a net profit of PhP405,920. Additionally, Mr. EZ is the authorized signatory for two other DTI-registered businesses, both operating within the import/export sector. These businesses recorded net profits of PhP18,475.74 and PhP50,398.40, respectively, in 2018.

Ms. TL, Mr. EZ's spouse, declared herself as a housewife with no personal income. Aside from her personal accounts, she maintains several joint accounts with her husband. Notably, transactions within her accounts surpass the yearly net profit of

Figure 11. Transaction Flow of the Subjects



Mr. EZ's businesses. Furthermore, transactions from January 2021 onwards totaled over PhP45 million within seven months, solely across her two accounts.

Mrs. Z, Mr. EZ's mother and a retiree, is said to own two businesses. However, documentation submitted to the CP indicates she only serves as an authorized signatory for these ventures.

Regarding Mr. KZ, his relationship with the other subjects were not disclosed in the STRs. However, given their shared surname, it is reasonable to infer that he is Mr. KZ's brother.

In particular, a bank account of the subjects had 123 credit transactions totaling PhP87.66 million and 137 debit transactions totaling PhP87.69 million, suggesting a pass-through account set-up. Verification from the CP confirmed that questionable inter-account transfers are for the subjects' recording and reconciliation purposes. Moreover, most withdrawals were disclosed to be for business purposes.

Underreporting Business Income with Significant Cross-Border Transactions

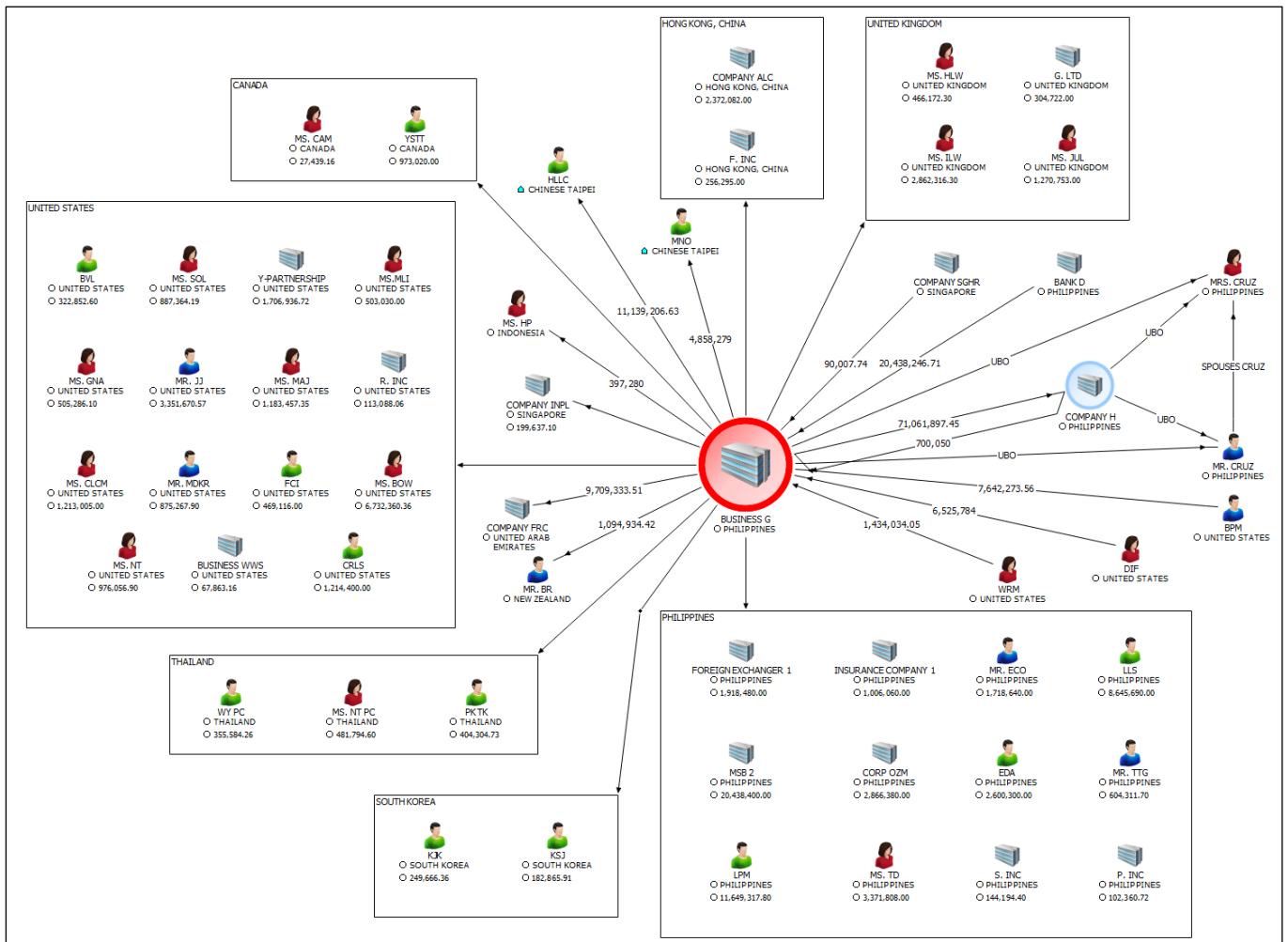
Bank C reported 373 STRs totaling PhP574.13 million concerning Business G. Said company, registered with the Securities and Exchange Commission, primarily provides business consultancy services in the Philippines. The identified ultimate beneficial owners, spouses Cruz, each hold a 25% ownership stake and act as authorized signatories.

According to Business G's 2020 annual financial statements and income tax return, the company recorded total comprehensive income and net taxable income of PhP38,739 and PhP57,287, respectively. However, the CP observed significant financial activity in their peso and dollar accounts. From September 2013 to March 2023, Business G recorded credits totaling PhP607.1 million and debits of PhP606.59 million in their peso account. Similarly, their dollar account showed credits and debits amounting to USD 16.798 million and USD 16.797 million, respectively.

Transactions in their peso account primarily involved local check deposits, cash deposits, and inter-account transfers from its owners, and from Company H, another business owned by the spouses Cruz. These funds purportedly funded on-us transactions, mainly payments to Foreign Exchanger 1 for purchasing dollars, which were then deposited into Business G and Company H's dollar accounts. Meanwhile, funds from Business G's dollar accounts were transferred through 438 cross-border remittances to individuals and corporate accounts in various countries, including Canada, Indonesia, the United Kingdom, New Zealand, Singapore, South Korea, Chinese Taipei, Thailand, the United Arab Emirates, and the United States of America.

EXAMINING TAX CRIMES: A STUDY OF SUSPICIOUS TRANSACTION REPORTS IN THE PHILIPPINES

Figure 12. Transaction Flow of Business G



Further investigation revealed that credits to the peso account represent business income, whereas transactions between Business G and Company H represent business revolving and additional work funds. In addition, remittances abroad were allegedly payments for royalty fees for management consultancy and the living expenses of the owners' godchild.

Additionally, STRs were filed against Business G in 2016 for failing to furnish supporting documents for an outward cross-border remittance.

CONCLUSION AND RECOMMENDATIONS

CONCLUSION

Tax evasion poses a significant challenge to governments worldwide by hindering revenue collection essential for funding public infrastructure and services. In the Philippines, tax evasion costs the government billions annually, leading to fiscal deficits and hampering socio-economic development. To address this issue, legislative measures have been enacted, including the inclusion of tax evasion as a predicate offense in the AMLA. This legislative change has prompted a notable shift in reporting practices among CPs, evident in the surge of STR submissions in 2021. However, the subsequent decline in STR filings in the following years suggests a transitional phase as CPs adjust their reporting mechanisms.

Particularly noteworthy is the fact that 94.79% of tax crime-related STRs filed between January 2021 and June 2023 demonstrate a proactive reporting by CPs, primarily stemming from internal screenings and investigations. The remaining 5.21% were reactive reports, largely prompted by foreign law enforcement agencies.

For the period covered in the study, majority of the transaction reports were categorized as SCs, accounting for 80.13% of the total volume and 96.64% of the total value. The remaining transactions (with 19.87% share to total volume and 3.36% share to total value) were STRs filed under various PCs. Significantly, the misuse of SI6 by reporting entities is a notable concern, given the lack of detailed information in many reports and the potential misclassification under different categories.

Additionally, a substantial portion of SI3 reports was found to be associated with tax-related crimes, underscoring the importance of accurately identifying and reporting such offenses using PC35. Notably, instances have also arisen where tax crime-related STRs were erroneously classified under other PCs instead of PC35.

On the contrary, it was observed that 10.96% of the dataset were accurately filed under PC35. Furthermore, a distinct correlation was identified between tax evasion and other predicate offenses such as smuggling, fraud, and corruption.

Examining the dataset, it was evident that BSP-regulated institutions constituted the predominant source of tax evasion-related STRs (96.20%). Notably, check deposits, international outward remittances, and domestic inward remittances emerged as the most significant transaction types in terms of value, while inter-account transfers, loan availments, and cash deposits were the most frequently reported transaction types.

The study's dataset also indicates that the majority (97.99%) of STRs involve individuals or entities within the Philippines, signaling a notable trend where Filipino nationals are predominantly implicated in reported potential tax crimes. Specifically, Metro Manila ranked first in both volume and PhP value, with Mandaluyong leading in terms of STR quantity, followed by Makati, Manila, and Quezon City, contributing significantly to the overall tally.

In addition, this study categorizes typologies according to the importance of the quantities involved and/or the frequency of reports on the suspicious activity/scheme, as well as the severity of the crime. The examples encompass, but are not restricted to, (1) unusual transaction pattern linked to online gaming service providers; (2) using a sister company's account as cash conduit for global suppliers; (3) vloggers' attempt to conceal income; (4) use of personal accounts for business-related transactions; and (5) underreporting business income with significant cross-border transactions.

RECOMMENDATIONS

The following recommendations are put forth in light of the analysis provided, with the aim of effectively addressing the challenges presented by tax evasion and strengthening the AML/CFT framework in the Philippines:

1. **Enhancing STR Submission:** CPs should improve the quality of STRs filed with the AMLC by including comprehensive information such as account holder profiles, beneficiary and counterparty addresses, detailed tax crime-related event narratives, identification of all involved parties, and accurate justifications for filing. CPs should also ensure accurate and consistent classification of PCs and SCs, particularly those related to tax evasion.
2. **Capacity Building:** CPs need to enhance their ability to recognize tax-related financial crimes and report suspicious transactions correctly, with regular reminders and dialogue to reinforce proper reporting procedures. CPs should develop and implement targeted training programs for their employees to strengthen their understanding of AML/CFT regulations, enhance their skills in identifying and reporting suspicious transactions, and ensure they are up-to-date with the latest trends and typologies of financial crimes. Regular workshops, seminars, and online courses should be provided to foster continuous learning and compliance.
3. **Strengthening Domestic Cooperation:** Improve collaboration and information-sharing mechanisms between the AMLC, domestic LEAs and other government agencies. Establish formal partnerships, conduct joint training sessions, and create task forces to facilitate coordinated efforts in tackling tax evasion and other financial crimes. This cooperation will ensure a unified and effective approach to AML/CFT initiatives.
4. **Increasing Public Awareness:** The findings of the study should be shared with various stakeholders, including internal AMLC groups, relevant LEAs, SAs, private partners in the AMLC's PPPP, and other FIUs with transactional links to the Philippines. Additionally, a redacted version of the findings should be published on the AMLC website.

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