Financial Intelligence
Unit

INDICATORS OF MONEY LAUNDERING IN OUTSOURCED ACCOUNTANT AND TAX CONSULTANT SECTORS
2024

IN COOPERATION WITH:

State Revenue Service

Indicators of Money Laundering in Outsourced Accountant and Tax Consultant Sectors

The Financial Intelligence Unit of Latvia, in cooperation with the State Revenue Service and the Association of Accountants of the Republic of Latvia, has developed guidelines **for outsourced accountants and tax consultants** (as well as other AML/CFT/CPF Law reporting entities) for effective risk management when providing services within the scope of their economic activity. The specific nature of the economic activity performed by outsourced accountants and tax consultants as reporting entities[1] allows them to detect suspicious transactions and identify possible tax evasion and the resulting ML.

Reporting entities of the AML/CFT/CPF Law, including outsourced accountants and tax consultants, are obliged to provide information to the FIU about **suspicious transactions** or **activities**. The guidelines serve as a resource for identifying suspicious transactions and activities in order for the outsourced accountants and tax advisors to successfully implement a risk-based approach and effectively manage ML risks. This promotes fair competition, tax payments and payments equivalent thereto and prevents placement, layering and integration of proceeds of crime into the financial system.

It is important to note that **outsourcing of accounting services** is often combined with economic activities such as tax consultancy and services for the establishment and operation of a legal person[2]. According to the NRA 2023, four main risks have been identified in the outsourced accounting sector:

1. collusion with other subjects of the regulated sector;
2. deliberate failure to report suspicious transactions;
3. providing advice on how to avoid paying taxes;
4. preparation and recording of fictitious transaction documents[3].

It should be noted that **tax consultants** as industry professionals have an in-depth knowledge of legislation and economics, therefore there is a risk that consultations may be used for ML, including unknowingly, as well as to avoid paying taxes. According to NRA 2023, two main risks have been identified in the tax consultant sector[4]:

1. deliberate failure to report suspicious transactions;
2. provision of consultations is used for ML, including unknowingly, as well as to avoid paying taxes[5].

It is important to note that the list of indicators of tax payment and payment equivalent thereto evasion and the resulting set of indicators of ML is not exhaustive and

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[1] AML/CFT/CPF Law Section 3 (1), Clause 3. Available: https://likumi.lv/ta/en/en/id/178987-law-on-the-prevention-of-money-laundering-and-terrorism-and-proliferation-financing.
[2] NRA 2023. Page 191 Available: https://www.fid.gov.lv/uploads/files/NRA%202020%20-%202022.pdf 202020.%E2%80%932022.%20GADU.pdf.
[3] NRA 2023. Page 192 Available: https://www.fid.gov.lv/uploads/files/NRA%202020%20-%202022.pdf 202020.%E2%80%932022.%20GADU.pdf.
[4] NRA 2023. Page 188 Available: https://www.fid.gov.lv/uploads/files/NRA%202020%20-%202022.pdf 202020.%E2%80%932022.%20GADU.pdf.
[5] NRA 2023. Page 189 Available: https://www.fid.gov.lv/uploads/files/NRA%202020%20-%202022.pdf 202020.%E2%80%932022.%20GADU.pdf.

comprehensive. The identification of specific, individual sign may not always give rise to suspicion of criminal activity, but they can serve as a useful control mechanism to increase supervision or to apply enhanced due diligence in individual cases. Each suspicious transaction, even if it corresponds to known typologies of ML, may contain unique indicators. Consequently, it is necessary to assess each case individually, taking into account the available information about the customer and the transaction, as well as customer due diligence data.

In order to facilitate early detection of possible criminal offences and to facilitate reporting by non-financial sector reporting entities, the FIU has developed and implemented a simplified reporting procedure on 9 September 2024. A new reporting format was designed and developed in collaboration with the non-financial sector, ensuring that the simplified procedure is specifically tailored to the non-financial sector, thereby improving reporting efficiency. [6/7]

The indications set out in the guidelines apply to a client (legal and/or natural person), an important business associate of the client and/or a group of persons related to the client and/or a group of persons related to the client to the extent that the aggregate of actions indicates a possible criminal offence or attempted criminal offence.

Indicators of tax payment and payment equivalent thereto evasion and the resulting set of indicators of ML in the outsourced accountant and tax consultant sectors: [8/ 9/ 10/ 11/ 12/13]

1. Information indicating the economic activity of a legal person is not available, e.g. information is not available on the legal person's website (the website has not been updated for a long time or the goods listed on the website are not for sale or do not exist) or the website does not exist and the legal person cannot provide documents evidencing transactions (e.g., contracts, acceptance and transfer statements, account statements etc.) that could indicate to an actual economic activity of the legal person.

2. A legal person does not have the material and technical supplies to ensure the declared economic activity or the material and technical supplies at the disposal of the legal person does not correspond to the nature of the declared economic activity.

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[6] Simplified reporting procedure for non-financial sector. Available: https://fid.gov.lv/en/news/simplified-reporting-procedure-for-non-financial-sector

[7] FIU Infographic: SARN submission to goAML. Available: https://www.fid.gov.lv/uploads/files/_Zi%C5%86o%C5%A1ana%20goAML%20.png .

[8]Methodological material "Typologies and signs of money laundering", 2nd updated edition. Available: https://www.fid.gov.lv/uploads/files/2021/FIU_Typologies%20and%20indicators%20of%20ML_2nd%20revised%20edition.pdf.

[9] Informative material "Recommendations of the State Revenue Service for risk assessment of the business partner and transaction". Available: https://www.vid.gov.lv/lv/media/1341/download?attachment .

[10] FIAU Report "Factsheet: Typologies & Red Flags: Indicators of Tax-Related ML ". Available at: https://fiaumalta.org/wp-content/uploads/2021/11/FIAU-Factsheet-Typologies-Red-Flags-Indicators-of-Tax-Related-ML.pdf .

[11] "Red Flag Indicators for Accountants ". Available at: https://www.fmu.gov.pk/docs/Red-Flag-Indicators-for-Accountants-final.pdf .

[12]The Eurasian Group on Combating Money Laundering and Financing of Terrorism's Report "Tax Crimes and Money Laundering Typology Research". Available at: https://eurasiangroup.org/files/Typologii%20EAG/Nalogovye_prestupleniya_Eng.pdf .

[13]FATF Report "Laundering the Proceeds of VAT Carousel Fraud". Available at: https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Laundering%20the%20Proceeds%20of%20VAT%20Carousel%20Fraud.pdf .

3. The number of employees declared by the legal person is clearly not adequate to ensure the declared type of economic activity.

4. A legal person that has accumulated a tax debt or is subject to a tax administration investigation formally ceases its economic activity (thereby incurring losses to the State in the form of unpaid taxes), but the economic activity is in fact continued by another legal person that has taken over the business model, resources and employees of the previous legal person (which owes money to the state).

5. There is a scheme in place that involves several legal persons that are involved with each other as subcontractors who, after the implementation of the relevant transaction, cease their economic activity without paying their tax debts to the state.

6. Newly established legal persons are involved in the transaction schemes, moreover, they conduct transactions for significant sums of money within the first year or even a month of starting their operation and there is no logical explanation for it.

7. The client has not registered in the value added tax taxable persons register even if the statutory prerequisites for registration have taken place.

8. The client makes transactions that cause them avoidable losses and the transaction is not logically and economically justified or the client is unable to explain it.

9. Atypical of the client's usual business activities, the client purchases goods of which the actual existence is doubtful, from a registered taxable person in Latvia with whom there has been no previous cooperation with and delivers the goods to a foreign legal person with whom there has been no previous cooperation with while making an immaterial profit on the transaction and obtaining the right to receive the deducted input tax refund.

10. The client makes payments to companies registered in Latvia or abroad for consultancy services or other services that are not typical of the client's economic activity and/or are economically unjustified or for goods that are not consistent with the nature of the client's economic activity (e.g., the service fee is disproportionately high in relation to the client's economic activity).

11. The client makes card payments that do not appear to be in line with the client's economic activity and/or indicate that the funds are used for private purposes.

12. The client issues substantial loans (including to related parties) that are not being repaid or are repaid only temporarily and subsequently issues new loans.

13. Large sums of cash are being withdrawn from the clients account for which no supporting documents are provided.

14. The client has issued substantial cash or non-cash advances which have not been settled over a long period of time, have not been repaid or a proof of use of the advances have not been provided and/or taxes have not been paid and calculated in accordance with the Law Personal Income Tax.

15. The client has tax payment or equivalent thereto payment debt that is not being paid and their funds are being used for other purposes such as paying suppliers or service providers, issuing loans or repaying a loan that has not been received.

16. The client receives incoming payments from legal persons registered in tax-free or low-tax countries and/or in high-risk jurisdictions.

17. The same transaction parties receive payments for different groups of goods (uncharacteristic of regular economic activity).

18. Payments are transit payments by nature – funds are transferred from the accounts shortly after they are received and there is no logical explanation for it.

19. Payments are made for seemingly fictitious transactions (transactions do not match with the client's economic activity nor do they have any logical explanation).

20. The client (natural and/or legal person) carries out cash transactions for amounts that are not typical for a natural person and/or not typical for the economic activity of the legal person.

21. A legal person with a tax debt or a with an ongoing tax administration inspection case opens accounts in foreign credit institutions or payment institutions without a justified reason for their economic activity.

22. The legal persons account payments do not indicate of any active economic activity being carried out e.g., has no rental payments for premises, electricity, employee wage payments, payments to transport service providers etc., fictitious payments for goods, consultations or other services and bank commission payments.

23. According to the client's accounting records, after a cash withdrawal from the account, a large amount of cash is supposedly deposited into the company's cash register which is not being paid out from the company's cash register for a long period of time and/or does not correspond to the client's economic activity and/or the client is unable to provide a reasonable explanation for it.

24. Documents submitted as proof of transactions are not submitted in such a volume that would make it possible to verify the legality of the origin of funds and contain inaccuracies that could possibly point to them being fictitious.

25. The client provides false or incomplete information about the origin of the funds (or uses impossible to verify justification of the origin of the funds).

26. The submitted documents on the origin of the loaned funds and the conditions of the loan are incomplete and questionable - the documents contain signs of forgery.

27. There are no documents verifying the issuance of the loan or its repayment.

28. The indicated payment purposes are "according to invoices" or "bill of lading" etc., but there are no payments of an economic nature that indicate to the economic activity of the company (rental payments for premises, employee wage payments, electricity bills payments etc.).

The scheme depicted in *Figure No. 1* depicts some of the indicators of tax and equivalent thereto payment evasion and the associated ML indicators in a concentrated and easy-to-read manner, providing a summary of fundamental information to facilitate the reporting of suspicions transactions by the reporting entities.
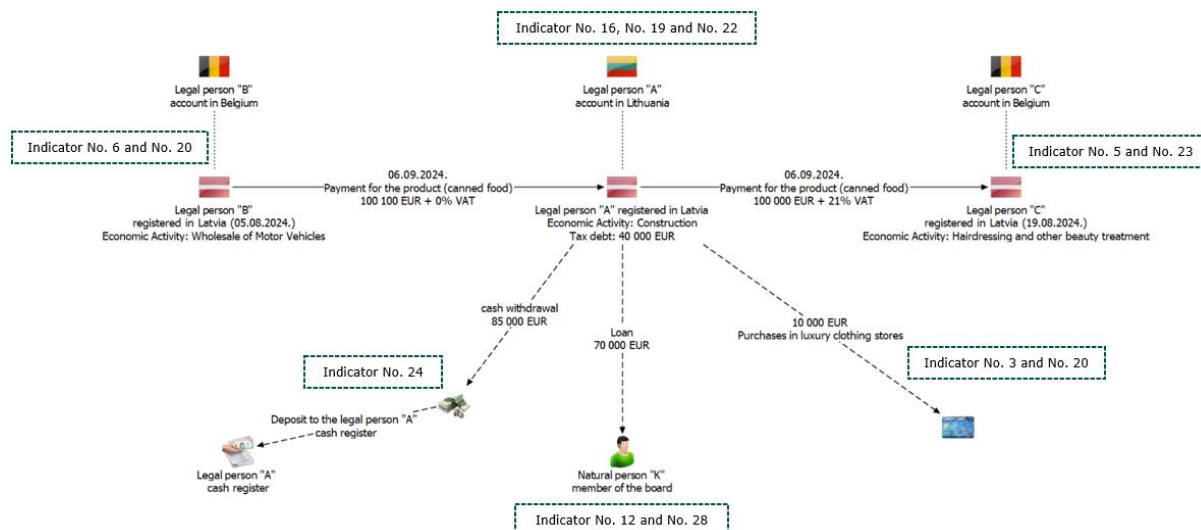
Several typology materials have been published[14] on the FIU website about the specific predicative criminal offenses that can be used in daily work, including:

- "Money laundering risk assessment in real estate and construction sectors ";
- Methodological material "Indicators of Sectoral and Targeted Financial Sanction Evasion", 2nd updated edition;
- Methodological material "Guidelines on the Prevention of Terrorism and Proliferation Financing ", updated version;
- Strategic analysis study "Trade-Based Money laundering ";
- "Indicators of Corruption and Case Analysis ";
- Methodological material "Typology and Indicators of Money Laundering " 2nd revised edition.

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[14] Strategic analysis, Case analysis and guidelines are available on FIU website: https://fid.gov.lv/en/roles-and-responsibilities/strategic-analysis-and-guidelines

List of abbreviations used

FIU	Financial Intelligence Unit
ML	Money Laundering
ML/TF/PF	Money Laundering, Terrorism Financing and Proliferation Financing
AML/CFT/CPF Law	The Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
NRA 2023	National ML/TF/PF Risk Assessment for reporting period 2020-2022
PF	Proliferation Financing
TF	Terrorism Financing