

FBR cell's finding: Money laundering being carried out through "gift back" scheme

The Anti-Money Laundering Cell of the Directorate General of Intelligence & Investigation Islamabad has found that some prominent businessmen and politicians are allegedly involved in money laundering committed through "gift back" arrangements, as they are laundering their tax evaded money through gifts.

According to sources, Directorate General of I & I-IR has started investigations in cases of money laundering committed through gift back arrangements by various high net worth individuals. It is observed that a large number of taxpayers are laundering their tax evaded money through gifts received from their parents, siblings and spouses who are either out of tax net or have no known sources of income.

During investigation, the agency has found that few prominent businessmen and politicians have found to be involved in money laundering committed through gift back arrangements. As per FBR's instructions issued to the field formations, this aspect of declarations of various High Net-worth Individuals (HNWIs) has been flagged as a risk area, which needs further inquiry and verification regarding genuineness of the said gifts, and to scrutinise whether the gifts have been donated out of taxed money or otherwise.

In view of that, data of said referred cases pertaining to your jurisdiction is hereby shared with field formations. Directors of the agency are requested to investigate and probe the cases further. The individuals may be required to furnish details of donors, copies of gift deeds, details regarding mode of grant of gift, etc, or any other information relevant to the inquiry. Any cases where gifts are found genuine, necessary action may be taken under the law, agency's instructions added.

Background of the issue revealed that Anti Money Laundering Cell of the Directorate General of Intelligence & Investigation Islamabad has started investigating cases of money laundering committed through gift back arrangements by various high net worth individuals. It is observed that due to absence of gift tax in the country a large number of taxpayers are laundering their tax evaded money through gifts received from their parents, siblings and spouses who are either out of tax net or have no known sources of income.

During the routine scrutiny of high net worth individuals, the Anti Money Laundering Cell of the Intelligence & Investigation - Inland Revenue observed that in many tax returns, declared incomes and taxes paid on these incomes are very nominal. However, the accompanying wealth statements of these individuals, which has been made compulsory to file by the FBR, show the net assets running into hundreds of millions of rupees and even higher. Trend has been observed that, in many cases the net assets are gradually increased in wealth statements over the period of only few years, without there being any taxable income behind the accretion. In such cases, usually the reconciliation of net assets from previous years is reached by claims of hefty gifts as inflows, without disclosing any details of how and from where such gifts were obtained. This practice raised suspicion whether this was just another method to avoid payment of taxes through

misreporting source of income. The agency also red-flagged these cases to analyze if the scheme of gift-back arrangement is being employed to launder the tax evaded incomes, which is already causing irreparable loss to the national exchequer each year?

The amount of gifts claimed by these individuals runs in tens of millions of rupees. In few cases, gifts even to the tune of rupees one billion and higher have been declared by individuals.

The data gathered by the Anti Money Laundering Cell relating to tax year 2016 revealed that 2,785 individuals declared receipt of gifts in their wealth statements, aggregating over Rs 102 billion in tax year 2016 only. The search criteria covered the cases where minimum amount of gift received is ten million rupees or above. In three of these cases, individuals declared gifts of over Rs 1 billion, with the highest amount of gift received being rupees 1.7 billion. Eight individuals declared gifts varying in worth between Rs 500 million to Rs 1 billion, 49 individuals declared gifts worth between Rs 200 million to Rs 500 million. Likewise, 97 individuals declared having received gifts varying between Rs 100 million to Rs 200 million. Two hundred and eighty individuals declared gifts between Rs 50 million to Rs 100 million. While, the number of individuals who reported gifts between Rs 10 million to Rs 50 million was at 2,348.

Catching up with and covering all possible methods of money laundering being employed in the country these days to evade taxes and trick the tax authorities, the data thus far collected is being further scrutinised by the Anti Money Laundering Cell and detailed investigations kick-started on Friday at the Islamabad Directorate of I&I-IR.

It is pertinent to mention that not all such cases analyzed so far were found to be sham. In many cases, gifts were found genuine having been reported by those who donated and mostly came from high net worth individuals to members of their family after paying taxes.

The AML Cell is now scrutinising rest of these cases to see whether the lofty gifts declared before the tax authorities on which taxes were not paid by the receivers came from legitimate sources, ie duly reported and taxed incomes of those who gave these gifts, and even, if the "sources" where the gifts are coming from actually exist or is it just another sham to trick the tax authorities?

The Directorate General of Intelligence & Investigation - Inland Revenue is The FBR's criminal investigations" wing having exclusive jurisdiction to try cases of tax evasion and tax fraud. It is pertinent to mention that tax evasion is a predicate offence under the Anti-Money Laundering Act 2010, and the Government of Pakistan has recently empowered the Directorate General to investigate and prosecute cases of money laundering where predicate offence is tax evasion or tax fraud.

During the under reference investigations, cases where it is found that such gift back arrangement is employed with an intent to commit tax evasion, the assets of such individuals will be confiscated as per law, under the Anti Money Laundering Act 2010. Moreover, criminal references will be filed in the Special Court of Customs & Taxation. It is pertinent to mention that laundering the proceeds of tax evasion through schemes such as gift back arrangements are liable to punishment with rigorous imprisonment for a term up to ten years, along with heavy

finances as well as forfeiture of property involved in money laundering or property of corresponding value.

On the directions of Director General I&I-IR, Khawaja Tanveer Ahmed, the exercise has been initially started at the AML Cell Islamabad.

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