

## **2. Typology**

### **Scheme for circulation and legalization of proceeds derived from tax evasion and illicit entrepreneurial activities using money transfers by natural persons.**

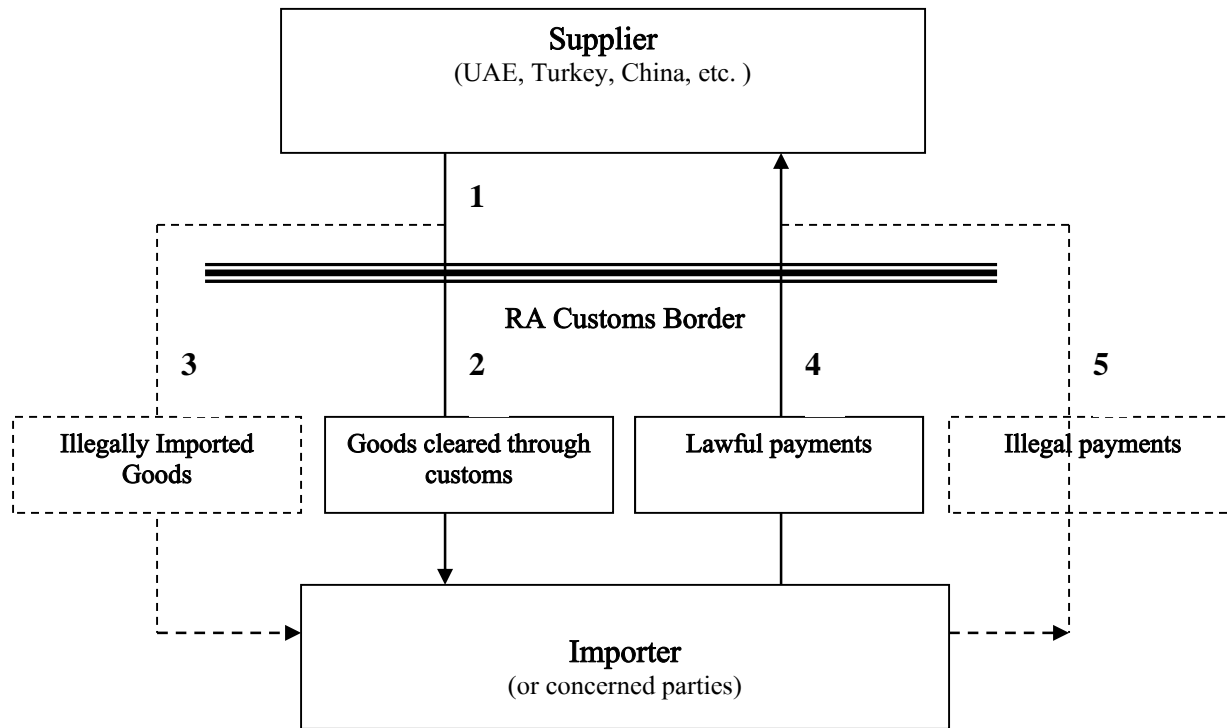
#### **1) Description of the Scheme**

The transactions carried out with this scheme generally include the following direction of flow of funds: transfer of funds from a natural person to a non-resident legal person. This direction of flow of funds is primarily connected with import transactions. Particularly, an organization engaged in importing goods to the Republic of Armenia declares and clears the good through customs in reduced volumes, which also means that the undeclared proportion of the goods is sold in shadow (not disclosed in accounting and other documents of the organization). For the purpose of exercising a payment for the goods the organization transfers (through a concerned party, on behalf of a natural person or with his/her bank account) the proceeds derived from the trade of undeclared goods to the organization, that the goods were imported from. As a documentary ground for the large amount transfers standard contracts for loans, securities trade are presented or “repaying debt”, “clearing liabilities” are directly indicated as purposes for transfers or invoices of legal persons are presented.

The same scheme is also evidenced when a natural person is engaged in importing goods. The customs clearance of the imported goods is conducted through “specialized” organizations (“one-day life”, “paper selling” companies) founded for this purpose and the payment meeting the import is carried out by bank accounts serviced in banks of the Republic of Armenia (or via fast transfer systems, without opening a bank account).

The above illustrated transactions are considered as financing of shadow circulation related to importing entrepreneurial activities and are aimed at evading direct or indirect taxes subject for payment by business entities.

2) The mentioned type of operations are schematically illustrated bellow



- The Importer purchases and transports goods to Armenia from the Supplier,
- Part of the imported goods is lawfully declared and cleared through customs,
- The remaining part of the imported goods is imported in illegal ways and is not declared/customs cleared,
- The proceeds derived from trade of lawfully declared and customs cleared goods are officially transferred from the bank account of the Importer to the Supplier presenting documents verifying the lawfulness of the payment,
- The proceeds derived from trade of goods not declared/customs cleared are transferred by concerned parties to the Importer with or without opening an account (in some cases via fast transfer systems) while presenting standard contracts of loans, securities trade as a documentary ground for the payment or directly indicating “repaying debt”, “clearing liabilities”, etc. as purposes for the transfers or presenting invoices of legal persons.

### 3) Conclusion

The operations conducted according to the illustrated scheme and series of steps may be aimed at concealing the origin, movement or true ownership (final beneficiaries) of proceeds, as well as evading tax liabilities, concealing real volumes of economic activities.

In terms of examining transactions with elements of the illustrated scheme, special attention shall be drawn to **transfers conducted through financial institutions, where the**

**initiators of the transfers are natural persons and beneficiaries – legal persons, while paying attention to the residency status of the beneficiary organization (as it may give a hint whether the payment is made meeting the imported goods) and verifying the relation of the initiator natural person to any business sphere.**