

Is Tax Evasion a Money Laundering?



Money laundering is the illegal process of concealing the origins of money that is generated illegally, through complex and multiple bank transactions/transfers. The objective is to “clean” the “dirty” money. Money laundering is a criminal offence and is subject to penalties and/or imprisonment, depending to the local legislation that the criminal offence is occurring.

Tax evasion is an illegal activity by which a person (legal or physical) avoids paying its tax liabilities and/or avoids declaring its income. Tax evasion is a criminal offence and is subject to penalties and/or imprisonment, depending to the local legislation that the criminal offence is occurring.

Examples of tax evasion

- A person (legal or physical) avoids declaring a true and accurate income generated.
- A person (legal or physical) generates income and deposits the funds that have been received in a bank institution that is situated in a tax heaven jurisdiction with no reporting requirements and avoids declaring these funds to the tax authorities and pay the resulting tax liability.
- An entity generates income, deposits the funds that have been received in a bank institution that is situated in a tax heaven jurisdiction and then establishes a corporate structure (i.e. mergers and acquisitions), ending up in a way which shows that the funds existed since the past and have been taxed in some other jurisdiction.
- An entity generates income and utilizes entities under common control/ownership, that are established in tax heaven jurisdictions with no reporting requirements, to issue “fake” invoices to the entity for reducing the chargeable income and the resulting tax liability that has to be paid to the tax authorities.
- An entity generates revenue and the shareholders are withdrawing the net profit from the entity’s bank accounts without declaring the related income in their personal income tax returns, i.e. dividend income, such as the entity has never distributed any profits.
- An entity is established in a low tax jurisdiction or a tax heaven jurisdiction, for generating a specific amount of income, for a specific purpose and then the entity is wind-up/strike-off.

As a conclusion to the above facts and examples, the generation of revenue from financial vehicles or other means, without declaring the related revenue to the appropriate authorities and paying the due tax, is considered to be an illegal activity, and is subject to penalties and/or imprisonment.

Concealing the generation of revenue and avoid declaring such revenue and paying the due tax, results in “cleaning” money from legal or illegal sources, implying in Money Laundering.