



Republic of Namibia  

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Financial Intelligence Centre

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**POTENTIAL TAX OFFENCES AND MONEY LAUNDERING TYPOLOGY REPORT**

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## 1. ACRONYMS

<b>ADLAs</b>	-	Authorized Dealers with Limited Authority
<b>AML/CFT &amp; CPF</b>	-	Anti-Money Laundering/ Combatting Terrorist and Proliferation Financing
<b>AI</b>	-	Accountable Institution as provided in Schedule 1 of FIA
<b>FATF</b>	-	Financial Action Task Force
<b>FIA</b>	-	Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended
<b>FIC</b>	-	The Financial Intelligence Centre
<b>LEAs</b>	-	Law Enforcement Agencies
<b>RI</b>	-	Reporting Institution as provided in Schedule 3 of the FIA
<b>VAT</b>	-	Value Added Tax
<b>RoR</b>	-	Receiver of Revenue

## 2. DEFINITIONS

**Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation framework (AML/CFT/CPF):** Refers to the national (or international) framework comprising of Law Enforcement, Prosecution, Judiciary, private sector, regulators etc, which are geared to combat and prevent Money Laundering, Terrorism and Proliferation Financing activities;

**Money laundering (ML):** Generally, refers to the act of disguising the true source of proceeds generated from unlawful activities and presenting such in the financial system as sourced from legitimate activities. However, in terms of the Prevention of Organized Crime Act, 2004, as amended (POCA), the definition of ML is broad enough to include engagement, acquisition and concealment of proceeds of crime whether directly or indirectly;

**Proliferation financing (PF)** “the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.”<sup>1</sup>

**Terrorist financing (TF)** includes “acts which are aimed at directly or indirectly providing or collecting funds with the intention that such funds should be used, or with the knowledge that such funds are to be used, in full or in part, to carry out any act of terrorism as defined in the Organization for African Unity (OAU) Convention on the Prevention and Combating of Terrorism of 1999, irrespective of whether or not the funds are actually used for such purpose or to carry out such acts.”

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<sup>1</sup> FATF Recommendation 7

## **SECTION A**

### **3. INTRODUCTION AND BACKGROUND**

The primary object of the Financial Intelligence Centre (FIC) is to coordinate Namibia's Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation (AML/CFT/CPF) framework. In the advancement of such object, the FIC works with relevant stakeholders such as regulatory and supervisory bodies, private sector, Law Enforcement Authorities (LEAs) and the Office of the Prosecutor General to enhance preventative and combative measures.

An essential function of the FIC entails receiving and analysing data which is used to identify proceeds of predicate offences to ML/TF and PF. The results of such analytical work are availed to Competent Authorities (CA) in the form of intelligence disclosures. Such are used in investigations, prosecutions and asset forfeiture activities related to ML/TF and PF. As a supervisory body, the FIC also plays a significant role in presenting trends, case studies and guidelines to Accountable and Reporting Institutions (AIs/RIs) to enhance the managing of relevant risks.

In terms of the 2012 National Risk Assessment (NRA) outcomes and various FIC monthly and quarterly reports, potential tax related offences remain one of the main predicate offences associated with Money Laundering in Namibia. This report avails a detailed summary of common typologies, patterns, and indicators of such offences identified in cases within the domain of the FIC. It is hoped that this report helps enhance sectoral understanding of tax offence patterns and methodologies in order to aid the implementation of enhanced control measures within the sectors. For LEAs and relevant authorities, the trends and patterns herein can hopefully support combative and preventive measures.

As noted from the various ML/TF/PF NRA activities over the years, there are no threats emanating from or associated with TF and PF activities. This report is thus limited to ML related threats in potential tax offences.

#### **4. OBJECTIVES OF THIS REPORT**

The objectives of this typology report are to:

- a. highlight the observed nature and level of potential tax related offenses in as far as their contribution to ML/TF/PF activities are concerned;
- b. enhance understanding of notable trends and typologies in the flow of proceeds/finances related to potential tax offences;
- c. enhance understanding of the *modus operandi* employed by perpetrators in various sectors;
- d. provide valuable sources of information for consideration in conducting Sectoral Risk Assessments, trends and typology studies, guiding control enhancement activities at sectoral and entity level;
- e. identify vulnerable areas within the sectoral frameworks that may need improvement;
- f. assist relevant authorities in refining their existing combatting and preventive strategies;  
and
- g. highlight red flags or indicators that may assist in combatting tax offences.

#### **5. METHODOLOGY**

The FIC analysed relevant data, records and various reports at its disposal in an effort to understand methodologies, trends, typologies and other related red flags associated with tax offences which potentially lead to ML/TF/PF activities. The information contained in this report was derived from STRs/SARs data filed with the FIC by various AIs and RIs, including:

- Information and intelligence emanating from reports and closed databases;
- Competent Authorities' investigation outcomes; and
- Open-source research.

## 6. UNDERSTANDING TAX AND MONEY LAUNDERING

Taxes are levied on persons and are paid to the Receiver of Revenue as prescribed by law. Tax revenues, amongst others, is used to resource public services and aid the development and economic agenda of the state. Failure to duly pay taxes is an offense that further undermines the said objectives of the State.

ML is the process through which proceeds of crime, including tax offences, are hidden or disguised as legitimate assets. Given the high prevalence rate of tax offences in Namibia, understanding the underlying ML trends is essential for combatting such offences. Amongst various methods, ML emanates from tax offences when funds or assets earned (that should have been duly declared and subjected to tax assessments) are not presented to taxation authorities for them to determine taxes payable and ensure collection of such taxes. This is often referred to as tax evasion.

### SECTION B

## 7. SUMMARY OF CASES AND STRs/SARs RELATED TO POTENTIAL TAX OFFENCES REPORTED TO THE FIC

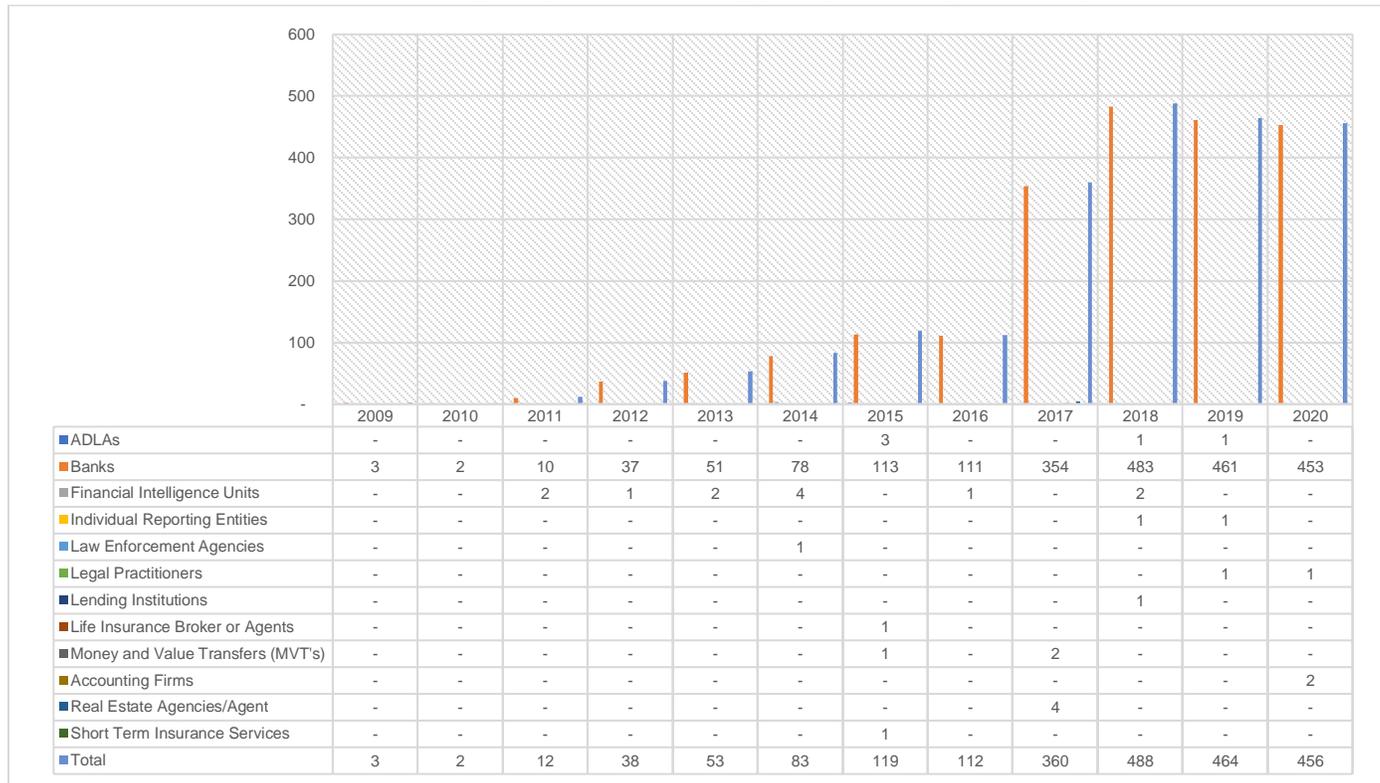
It is essential for combatting agencies and authorities to understand the tax offence methodologies, pressures and threats to effectively combat such predicate offences and related laundering activities.

This section provides an overview of cases<sup>2</sup>, STRs and SARs related to possible tax offences filed by AIs and RIs since the reporting obligation commenced, until **31 December 2020**. Further, the section speaks to the total number of reports escalated to cases and the total disclosures made to LEAs associated with potential tax offences.

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<sup>2</sup> Cases within FIC domain.  
(ADLAs) Authorized Dealers in Foreign Exchange with Limited Authority.

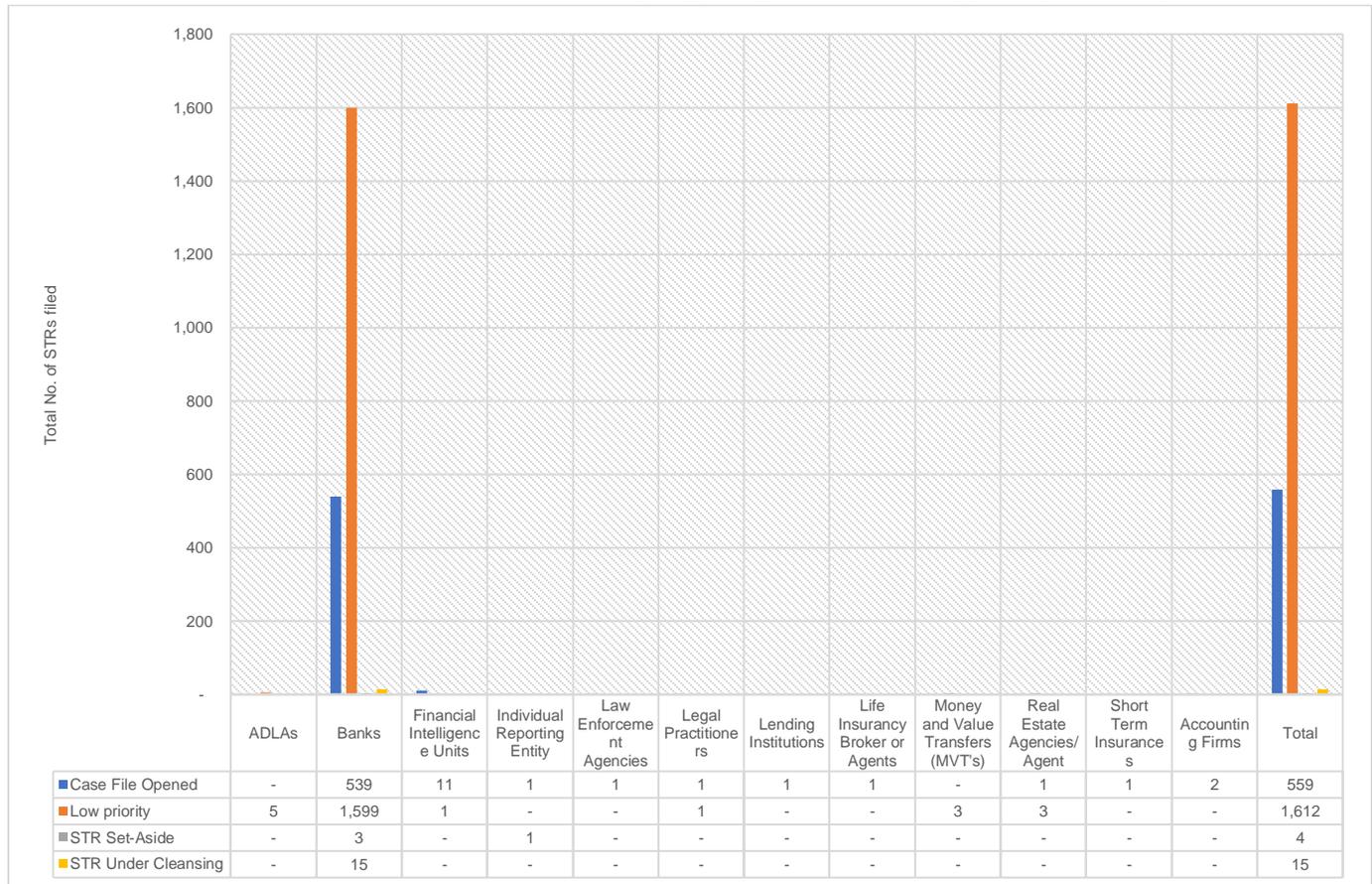
**Chart 1: STRs received from Agency Business Types (Sectors) annually**



The chart above presents a summary of STRs related to potential tax offences received from various AIs and RIs. The general trend is an increase in the volume of tax related reports reaching the FIC and being escalated to relevant authorities. As from the date the reporting obligations commenced until 31 December 2020, the FIC received a total of 2,190 STRs related to tax offences. Such is characterized by the lowest annual reporting of 3 STRs in 2009, to the highest number of 488 STRs in 2018. The trend appears to show a consistent year-on-year increase in the volume of reported STRs up to 2018, followed by a downward trend thereafter. Further, a total of 2,156 STRs or 98.2% of the reports originate from the banking sector (see Chart 2 below). This could be attributed to various factors, including the fact that banks appear to have the most matured AML/CFT/CPF control systems. It can also be argued that banks are generally exposed to a higher risks as almost all other sectors<sup>3</sup> make use of the banking systems.

<sup>3</sup> That may have poor preventive measures which may further expose the financial systems of banks.

**Chart 2: Classification of STRs received by Agency Business Types (Sectors)**



Overall, the FIC observed that 25.5% or 559 STRs were accorded “high priority” status and escalated for further analysis whilst a significant number of 1,612 STRs (or 73.6%) were categorized as ‘low priority’. Only 0.2% were set-aside while 0.7% of such reports were under cleansing at the time of finalizing this report. Further, 539 STRs from the banking sector have been escalated for further analysis, a possible sign that value adding reports are being filed by the sector.

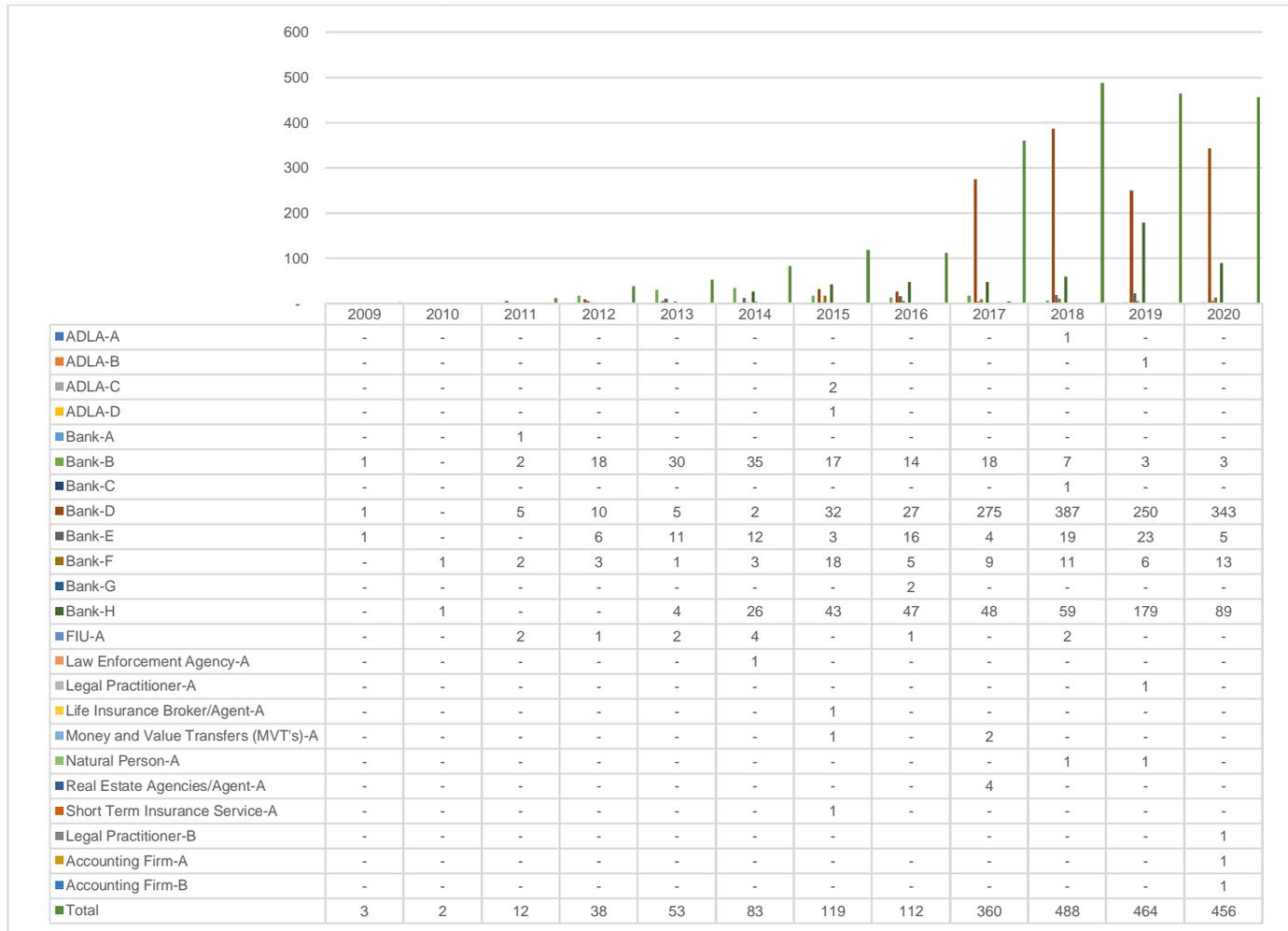
### 7.1 Level of prioritization of reports from AIs and RIs

The FIC applies a risk-based approach in determining the prioritization level to be assigned to reports received. Some reports that cannot be attended to immediately are accorded a “low priority” status. Amongst other considerations, reports classified as low priority are often those that appear to be outside of law enforcement’s priority areas of investigation. At times, when the financial values involved are negligible (or insignificant) in comparison to amounts in other reports, other things

being equal, reports with very low financial prejudice are often also classified as low priority. On the other hand, a report which meets certain requirements could eventually result in a case file being opened for further analysis. Factors which collectively inform prioritization levels include, but are not limited to:

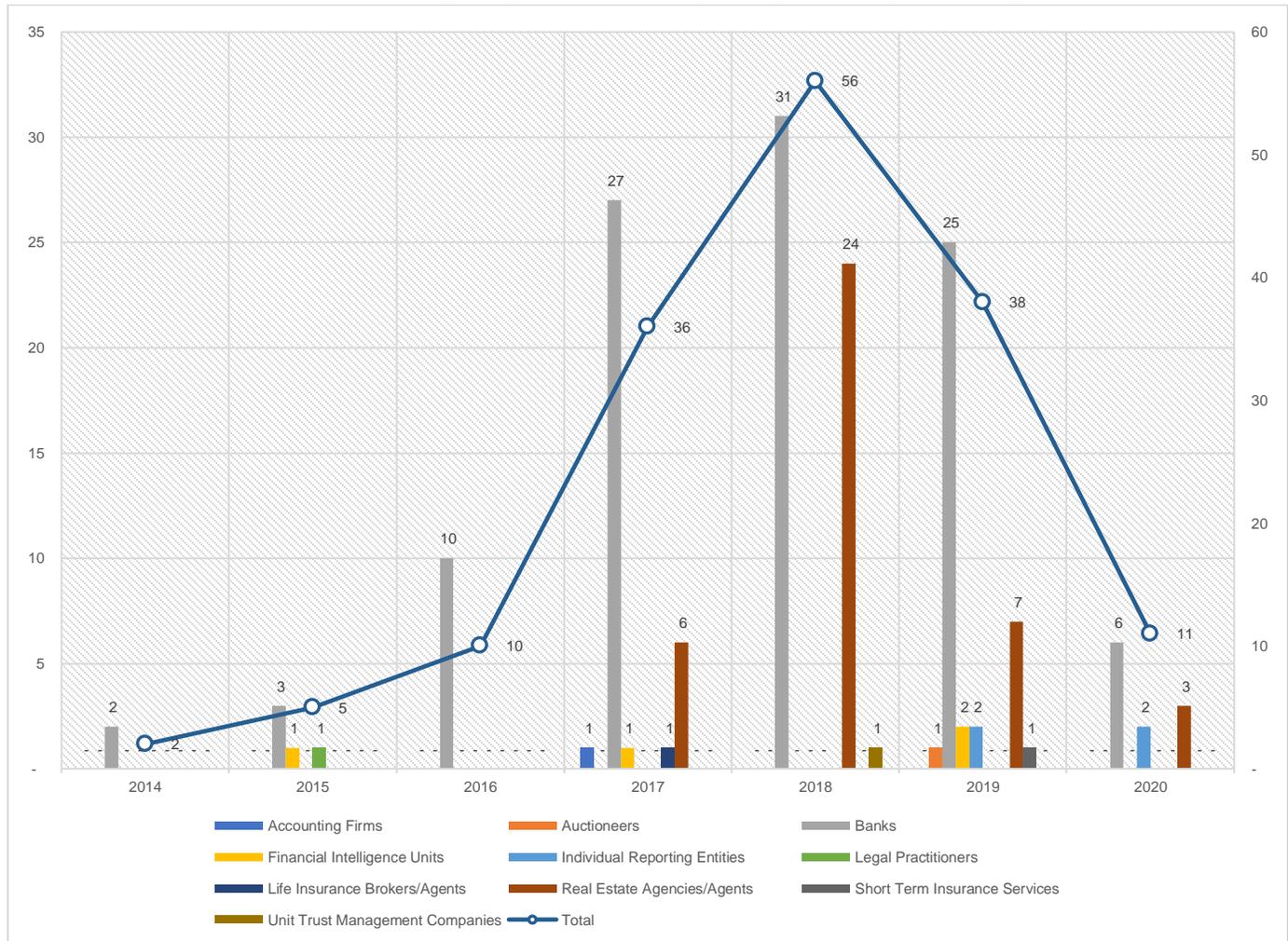
- a. Strategic priorities of LEAs, which are informed by the risk areas identified in the National Risk Assessment (NRA);
- b. Known ML, TF and/or PF indicators;
- c. Watch lists [higher risk persons and various sanctions lists];
- d. Prior reports on same subject/entity;
- e. Geographic risk areas involved;
- f. Duplicate/erroneous filing (which may lead to the STRs/SARs being set-aside);
- g. Risk of funds being placed out of reach of law enforcement; and
- h. Resource constraints within FIC's Financial Investigations and Analyses Division.

**Chart 3: STRs received from reporting entities**



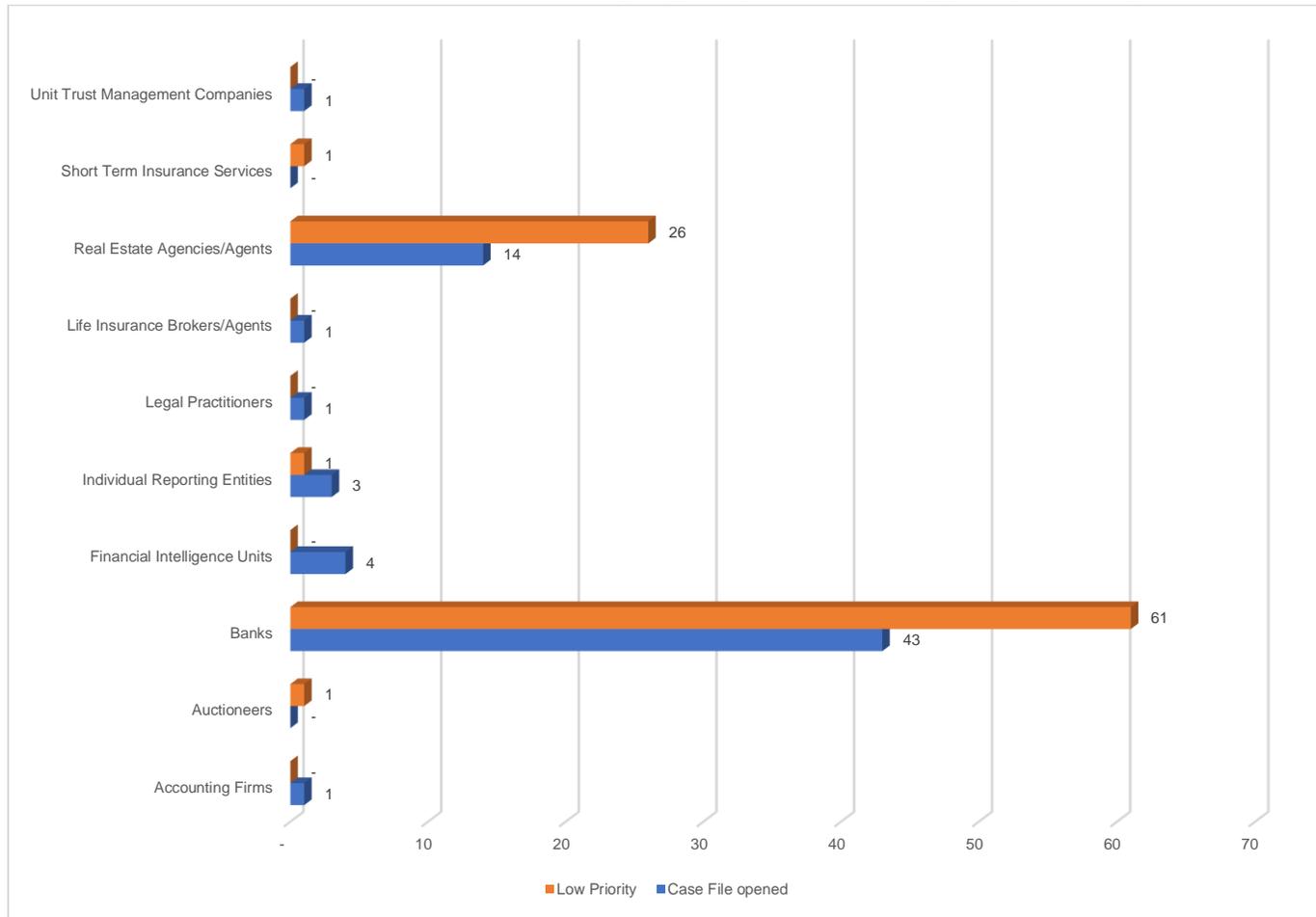
During the period under review, Bank-D filed the majority of STRs related to potential tax offences (1,337 STRs or 61.1%) nationally, as per Chart 3 above. This was followed by Bank-H with a total of 496 STRs (or 22.6%), then Bank-B with 148 STRs. Other AIs and RIs have filed very few STRs over the period analysed.

**Chart 4: SARs received from Agency Business Types (Sectors) annually**



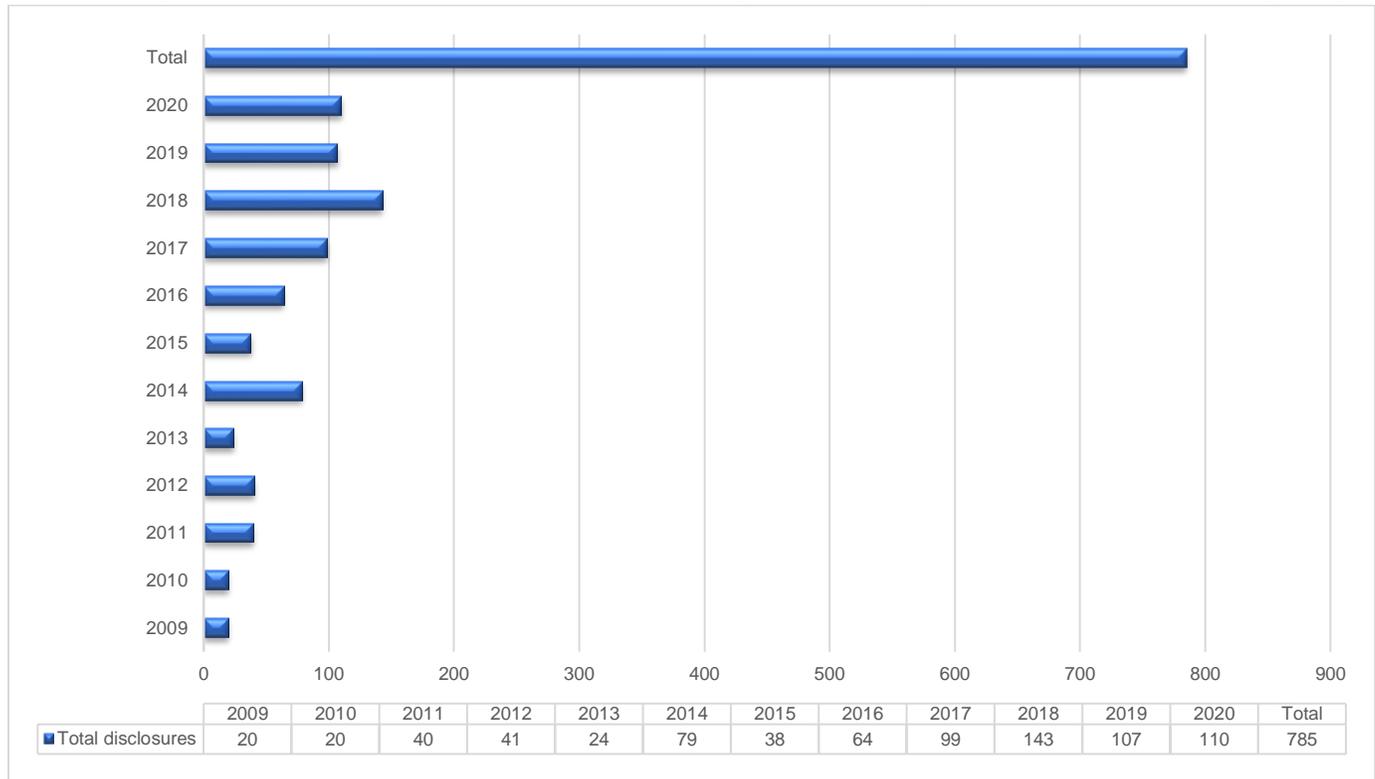
The chart above presents a summary of SARs related to potential tax offences received from various Accountable and Reporting Institutions. Such is characterized by the lowest reports of 2 SARs in 2014, to the highest number of 56 SARs in 2018. Similar to STRs, a significant volume of such SARs (65.8%) were received from the banking sector. The trend appears to show a consistent increase in the volume of reported SARs up to 2018, followed by a downward trend after 2018, similar to the trend observed with STRs as per Charts 1 and 3 above.

**Chart 5: Classification of SARs received by Agency Business Types (Sectors)**



43% of the SARs received were accorded 'high priority' status and escalated for further analysis whilst 57% (or 90 SARs) were categorized as 'low priority'. It is equally worth noting that about 40.8% of SARs related to potential tax offences, emanating from the banking sector were escalated for further analysis.

**Chart 6: Spontaneous Disclosures to the Ministry of Finance, Receiver of Revenue (RoR)**



In the period under review, the FIC disseminated 785 Spontaneous Disclosures (SDs) to the RoR. The number of disclosures increased significantly from lowest of 20 reports in 2009, to the highest number of 110 reports in 2020. Overall, the highest total number of reports (143) were disseminated during the year 2018, with a decrease observed in 2019.

**Chart 7: Potential tax offence values per annum**

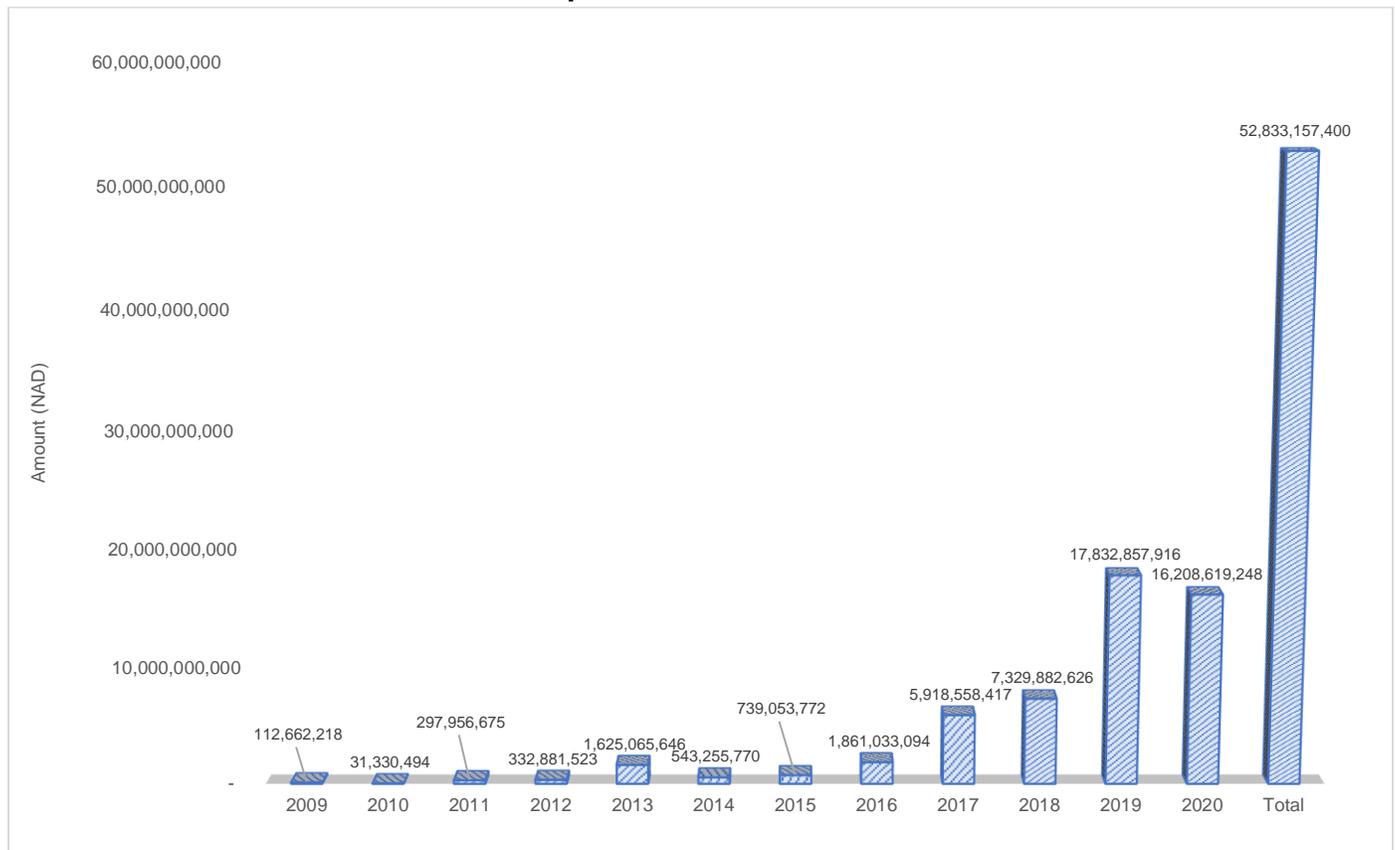


Chart 7 suggests the potential monetary value of tax offences increased year-on-year with the exception of 2020. The potential annual monetary value from suspected tax offences was highest in 2019 at NAD 17,832,857,916. Such is mostly attributed to the reports related to the so-called *Fishrot*<sup>4</sup> case, pending in court at the time of reporting.

<sup>4</sup> A case of alleged large-scale corruption in the allocation of fishing rights (quotas) involving Politically Exposed Persons.

## SECTION C

### 8. TYPICAL REASONS FOR REPORTING TRANSACTIONS AS SUSPICIOUS

Reporting entities are expected to provide ‘grounds for suspicion’ when submitting STRs or SARs to the FIC. These grounds should reflect the offense or crime they suspect. The purpose for explaining why they find transactions or activities suspicious is to assist the FIC during analysis of such STRs. In the process of establishing such ‘grounds for suspicions’, institutions take into consideration various elements (red flags, *modus operandi*, indicators etc.) that collectively inform the formulation of a suspicious transaction or activity to be reported. Below are observations from typical case studies and a list of the prominent methods employed to advance potential tax offences in the period under review:

**Table 1. Typical Reasons for Reporting Transactions as Suspicious by Sectors**

Sector	Predicate offence	Potential indicators
<b>Asset Management Companies</b>	Potential Tax Related Offence	<ul style="list-style-type: none"> <li>A subject placing funds into an investment account and dis-investing such amount within a very short period of time; and</li> <li>Significant cash deposits on the subject’s personal account from business activities.</li> </ul>
	Potential Tax Related Offence /Fraud	<ul style="list-style-type: none"> <li>A subject refusing to provide evidence of business activities and source of funds information.</li> </ul>
	Unknown	<ul style="list-style-type: none"> <li>A subject placing funds into an investment account shortly after being de-risked from a commercial bank.</li> </ul>
<b>Life Insurance Broker or Agents</b>	Potential Tax Related Offence	<ul style="list-style-type: none"> <li>A subject placing funds into an insurance policy account and withdrawing such amount within a very short period of time.</li> </ul>
<b>Long Term Insurance Services</b>	Potential Tax Related Offence /Unknown	<ul style="list-style-type: none"> <li>Alleged money laundering through the placement of funds into insurance policy account with no adequate explanation of the source of funds.</li> </ul>
	Potential Tax Related Offence /Theft	<ul style="list-style-type: none"> <li>Subject takes up an insurance policy with significant funds introduced, with the aim of investing such over a longer period. In a short period of time, such policy is surrendered or cancelled resulting in a refund of investment.</li> </ul>
<b>Banking</b>	Capital Flight/ Potential Tax Related Offence	<ul style="list-style-type: none"> <li>Subjects would open bank accounts locally and make large deposits into such accounts. As soon as deposits are made, such funds are withdrawn in foreign jurisdictions.</li> </ul>
	Under Declaration Income Tax/ Potential Tax Related Offence	<ul style="list-style-type: none"> <li>Mainly clients (subject) using their personal bank accounts for business purposes. Enables under declaration of business revenues for tax purposes;</li> <li>Cash withdrawals conducted at various bank branches and ATMs on the same day or in a reasonably shorter period of time;</li> </ul>

		<ul style="list-style-type: none"> <li>• Subjects making large cash deposits despite having no known/declared source(s) of income;</li> <li>• Clients undertaking large cash deposits, a conduct which is inconsistent with their established customer profiles or transaction history;</li> <li>• Low-value payments undertaken through accounts and low-value cash withdrawals (below the NAD 99,999.99 cash reporting threshold);</li> <li>• Sudden cash inflows into dormant or inactive account; and</li> <li>• Frequent termination of business or investment accounts by individual.</li> </ul>
	Potential Tax Fraud	<ul style="list-style-type: none"> <li>• Subjects (foreign nationals and Namibians) submit illegitimate (fake) and highly inflated tax invoices to the Receiver of Revenue for VAT refunds.</li> </ul>
	Mobile Risks/ Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• Several individuals make cash deposits into someone else's personal account locally, thereafter, the funds are transferred to an entity's bank account held in foreign jurisdictions using mobile transfer services.</li> </ul>
<b>ADLAs</b>	Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• Clients remit significant funds to the same person and refuse to provide the source and purpose of such funds;</li> <li>• A client continues sending money to himself for apparent travel related purposes, however the client never travels; and</li> <li>• Clients frequently sending or receiving significant amounts from the same source as 'Gifts'.</li> </ul>
<b>Legal Practitioners</b>	Potential Tax Related Offence /Fraud	<ul style="list-style-type: none"> <li>• Subjects purchasing or making huge cash deposits/transfers on their properties and the details relating to the sources of incomes are vague.</li> </ul>
<b>Motor Vehicle Dealership</b>	Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• An unemployed client purchases a very expensive vehicle (in cash) and the details relating to the sources of incomes are vague; and</li> <li>• A subject buys a vehicle in cash; however, their account profile does not seem consistent with the source of funding or cash activity.</li> </ul>
<b>Short term Insurance Services</b>	Potential Tax Related Offence /Unknown	<ul style="list-style-type: none"> <li>• Subject is constantly adding vehicles/assets to the existing asset insurance policy (vehicles are bought in cash).</li> </ul>
<b>Stock-Broker</b>	Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• A subject placing funds into an investment account and dis-investing within a very short period of time. Usually, source of such funds is not known.</li> </ul>
<b>Supervisory &amp; Regulatory Bodies</b>	Unknown/ Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• Supervised entity reportedly receiving funds from an unknown source to fund its operations.</li> </ul>
<b>Unit Trust Management Companies</b>	Unknown/ Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• A customer conducting transactions that appear to be inconsistent with their financial profile and/or transaction history.</li> </ul>
	Potential Tax Related Offence /Fraud	<ul style="list-style-type: none"> <li>• Client refusing to provide evidence of business activity and proof of source of income; and</li> <li>• A client placing funds into an investment account and dis-investing the amount within a very short period.</li> </ul>
	Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• A client placing funds into a long-term investment product/account and dis-investing the amount within a very short period; and</li> </ul>
	Fraud/ Potential Tax Related Offence	<ul style="list-style-type: none"> <li>• Money transferred to an account held abroad, authorised through illegitimate (fake) emails.</li> </ul>

Each red flag, when viewed in isolation may not always help indicate suspicious activities. However, considering a single red flag in concert with other red flags or indicators often helps to paint a more useful picture in an effort to determine if transactions or activities are suspicious.

Institutions are thus encouraged that when one red flag arises, more should be done to uncover other potential factors or red flags to help ascertain whether such transaction or activity is suspicious.

## **9. SAMPLED CASE STUDIES**

There are numerous types of tax offences such as under-invoicing, smuggling, suppression of sales, fraudulently claiming Value Added Tax (VAT) refunds and undervaluation of imports amongst others. However, for purposes of this report, emphasis is placed on cases which show abuse of the financial system to disguise ill-gotten gains in potential tax offences.

From the many cases at hand, there appears to be a general changing of trends in ML methods used. This may suggest that perpetrators continue to explore and find new methods of hiding or concealing the illicit origins of funds they launder. It is therefore crucial that institutions constantly conduct risk assessments on their products, services and customers, in order to enable a proactive approach to combatting ML/TF/PF threats. The below are sampled case studies shared to help understand certain common or notable trends in reports analysed.

### **Case Study 1: Use of personal bank account for business purposes**

The FIC has noted a significant number of cases showing individuals depositing substantial parts of their business' proceeds into their personal accounts or those of their associates or relatives. Many active businesses in Namibia operate as sole traders, suggesting minimal separation between business and ownership interests. Such entities (businesses), upon being established are encouraged by financial institutions to open business bank accounts. Unfortunately, some entities opt to use personal bank accounts (or combine both business and non-business transactions in one account). In some cases, this enables evasion of taxes by making business revenues appear as personal funds. From records at hand, this conduct was common amongst sole traders, unregistered entities and other private limited liability companies. The case study below is a typical example.

The FIC analysed a case that involved the phenomenon just explained above. The analysis revealed that **person-T** and his sister, **Person-R** were involved in diverting proceeds of a legitimate business to a personal account between September 2017 and October 2018. **Person-T** was a managing director of an established supermarket in Windhoek. He was depositing proceeds of his business in his sister's personal bank account (**Person-R**). The deposits that were made included over 250 cheques, EFTs and cash deposits totalling **NAD 350 million**. **Person-R** was not a registered taxpayer, neither an employee. Such transactional activities are not in line with the account profile of **person-R**. After FIC analysis, investigations confirmed initial tax evasion suspicions, the subject pleaded guilty and subsequently paid over **NAD 20 million** to the RoR.

Report source type	STR
Key	Money Laundering from Tax related offence
Perpetrators/Involved	Individuals and entities
Involved sector	Banking
Key risk controls	poor customer due diligence controls in bank; failure to reconcile transacting behavior to account beneficiary/owner.
Designated services	Bank/savings accounts
Instruments used	EFTs, cheques and cash deposits
Offence	Tax related offence

### Red flags

-  significant deposits (EFT, cheques and cash) made into their personal accounts;
-  Significant inflow of funds within a short period of time; and
-  Transacting behavior which is not in line with activities of such account holder.

### Case Study 2: Under Declaration of Income Tax

Other than non-profit organisations or similar bodies explicitly exempted from paying taxes, individuals and entities (close corporations, partnerships and companies) are required by law to pay taxes on earnings and other sources of income. FIC observations suggest that there are countless schemes that individuals and entities employ to evade or avoid taxation in Namibia. There are many prevalent tax frauds related to Income Tax and VAT. Such cases include:

- a. where individuals or legal entities' VAT claims appear to have been abused to fraudulently benefit beneficial owners on undue tax refunds. In most cases, these taxpayers continue to

find themselves claiming VAT refunds, yet bank account analysis tend to suggest that they should be in a position to pay taxes from revenues they generate;

- b. potential failure to pay taxes as per transacting behaviour reflected in bank accounts, yet such are not registered for taxation with the RoR; and
- c. where the income of a tax-registered entity is deposited into personal accounts of the business owners or associates to decrease the business' portion of taxable income which is eventually declared.

Below is a case study worth noting.

**Mr. Jolie** holds personal accounts at two local banks. He is a sole proprietor and trades in several household commodities in Windhoek. During the period 15 December 2016 to 29 May 2018, total cash deposits amounting to NAD 8.9 million reflected in his accounts. Most of these cash deposits appear to have been made by him. Further, **Mr. Jolie** prefers to withdraw cash from his accounts strictly through ATMs and Point of Sale (PoS) transactions. Although he is registered for tax purposes, he has been receiving tax refunds since registration and has never been liable to pay taxes. **Mr. Jolie** appears to spend funds in high-end fashion shops, costly vehicles and travels regularly overseas for holidays.

<b>Report source type</b>	STR
<b>Key</b>	Tax related offence through under declaration of income (Income Tax)
<b>Perpetrators/Involved</b>	Individual/sole trader
<b>Involved sector</b>	Banking
<b>Designated services</b>	Personal Bank Account
<b>Instruments used</b>	Cash deposits, ATM and PoS
<b>Offence</b>	Under declaration of Income Tax and Tax fraud

**Red flags**

-  significant cash deposits made by individuals into their personal accounts;
-  constant tax refunds indicating business may not be profitable;
-  a large cash turnover in a short period, indicative of potential profitable or sustainable business operations;
-  frequent cash withdrawals and PoS transactions subsequent to fund deposits (inconsistent with ordinary business expenses given the nature of his business); and

 no tax payments to the RoR traceable over the years.

### **Case Study 3: Potential fraudulent foreign VAT refunds**

The FIC analysed reports pertaining suspicious fund deposits that were inconsistent with the declared source of income of account holders. A syndicate involving foreign nationals and Namibians in defrauding the RoR was uncovered. The modus operandi involved submission of illegitimate (fake) and highly inflated tax invoices by the apparent foreign nationals who visited Namibia primarily for VAT refunds. The submissions were done through the VAT Refund facilitating agency<sup>5</sup>.

Three (3) foreign nationals came to Namibia on visitor permits. Whilst in Namibia, they made various purchases, on which VAT was charged on the goods. As per VAT Law, foreign nationals may claim the VAT incurred on certain goods and services upon their exiting of Namibia.

The scheme was orchestrated as follows: After the purchases, such foreign nationals met with Namibians who assisted them to apply and submit illegitimate and highly inflated tax invoices to the Refund facilitator. Upon successful claims submission, they would receive VAT tax refunds from RoR. Thereafter, significant deposits (cheques and cash) would be made into their personal and business accounts (foreign nationals). The trend was regular large EFTs and cash withdrawals associated with a group of individuals and entities. It was also noted that the bank accounts of the involved entities were opened soon before the scheme commenced. There were minimal other transactional activities on such accounts, except for transactions relating to the fraudulent VAT claims. Fraudulent VAT amounts in excess of **NAD 13 million** were paid into their accounts within a period of one year. The business accounts involved showed no business-related transactional activities and the main source of income comprised significantly of VAT refunds, subsequently followed by EFTs, cash withdrawals and PoS transactions on seemingly private expenditure. The bank accounts were held at three different local banks. A report was disseminated to relevant LEAs and investigations were conducted. The involved persons were subsequently arrested and charged with offences including tax fraud and corruption.

<b>Report source type</b>	STR
<b>Key</b>	Namibian and foreign nationals defrauding RoR
<b>Perpetrators/Involved</b>	Namibian entities, local and foreign nationals
<b>Involved sector</b>	Banking and remittance services

<sup>5</sup> An agency duly appointed by the Ministry to help with the facilitating of VAT refunds.

<b>Key risk controls</b>	Amongst others, poor claim authorization and verification controls within the VAT claim refunds operations; failure to reconcile claim names and bank beneficiary account details. Failure to detect questionable bank transactional behavior which conflicted the nature of supposed business activities.
<b>Designated services</b>	Business Bank accounts
<b>Instruments used</b>	Bank transfers (EFTs), cheques and cash deposits
<b>Offence</b>	Fraudulent foreign VAT refunds

## Red flags

-  *significant deposits (cheques and cash) made into personal and business bank accounts, some recently opened;*
-  *the only source of income received by entities is tax refunds. No other Business-like transactions;*
-  *large cash withdrawals and EFTs subsequent to fund deposits;*
-  *large and regular funds transfers through money remitters;*
-  *foreign account holders with no business links to Namibia; and*
-  *Significant inflow of funds within a short period of time.*

### **Case Study 4: Tax Fraud (Fraudulent foreign VAT refunds)**

*The FIC analysed a report pertaining to suspicious VAT refunds. The case involves a Commissioner and an employee (Namibia citizen) from Country-X's high commission in Namibia. The employee opened a fraudulent bank account in the name of the Commissioner with a local commercial bank and a significant amount was paid into such bank account from the RoR as VAT refund.*

*Analysis revealed that an employee took advantage of the Diplomatic advantages accorded to the Commissioner in Namibia. Such benefits include VAT claims for refund, which are not verified before being paid out. Equally, the case demonstrates how an employee managed to open a fraudulent bank account with local commercial bank using the Commissioner's documents to which an employee was the sole beneficiary.*

*The investigation team have recovered the total amount which was paid into the fraudulent account and such amount was transferred back to the State.*

Report source type	STR
Key	Namibian defrauding RoR
Perpetrators/Involved	Individual Namibian
Involved sector	Banking
Key risk controls	Amongst others, poor VAT claim authorization and verification controls around this category of a foreign Politically Exposed Persons (PEP) etc. Poor CDD controls within the banking sector which enabled account opening on behalf of a PEP (Commissioner), without effective EDD.
Designated services	Bank account
Instruments used	Bank transfers
Offence	Fraudulent VAT refunds

### Red flags

-  VAT claims submitted by a PEP (Commissioner) for refunds are not verified before being paid out. For ML/TF/PF purposes, PEPs are high risk clients and this presents a control shortcoming which was abused;
-  Employee opened a fraudulent bank account using the Commissioner's documents;
-  Account opened with Commissioner's documents, but employee was a sole beneficiary. Not questioned by bank; and
-  Significant amount paid into bank account from the RoR.

### **Case Study 5: Use of foreign remittance (Capital flight risks)**

*The FIC received a high volume of reports pertaining to large amounts withdrawn in China, from Namibian bank accounts. Initially, the Chinese nationals would open bank accounts locally and make large deposits into such accounts locally. As soon as deposits are made, it was observed that such funds are withdrawn in China. The FIC has noted that, in an effort to reduce suspicions, some Chinese nationals used Namibian citizens to open accounts in their names or entities and deposit funds into such accounts.*

*The scheme operated as follows: A Namibian woman registers a Close Corporation with the BIPA in which she is the sole member or owner. She then approaches several banks and successfully opens bank accounts in her name and of her entity. Shortly after the accounts are opened, large and regular cash deposits are made into these accounts. The disbursement of funds from these accounts is strictly through ATMs and PoS purchases. The majority and significant withdrawals are conducted in China. As mentioned above, this is usually right after the funds are deposited. Further, the transacting behavior on these business accounts do not appear to be related to the nature of relevant business activities. The funds*

*deposited are obviously not recorded in income tax declarations of the Chinese nationals and their businesses.*

*Law enforcement investigations revealed that although she is the owner of the entity and the bank accounts, she had no knowledge of the entity's operations and activities of her bank accounts. She admitted to having been approached by a Chinese national who is conducting a business in Namibia to register the entity as well as open bank accounts for the involved businesses, in exchange for a small 'fee of appreciation'.*

<b>Report source type</b>	STR
<b>Key</b>	Chinese nationals deposit cash locally and such is withdrawn in China. Bank accounts in use appear owned by Namibian nationals who have no relation to the business from where the funds originate.
<b>Perpetrators/Involved</b>	Individuals, business entities and Chinese nationals
<b>Involved sector</b>	Banking
<b>Key risk controls</b>	Amongst others, more than one ATM cards (per account) are issued to account holders who hand them over to Chinese nationals. Such accounts are used merely as conduit pipes to quickly move funds from Namibia.
<b>Designated services</b>	Capital flight, tax evasion, bank accounts.
<b>Instruments used</b>	Bank accounts, cash deposits, ATM and PoS.
<b>Offence</b>	Possible non-compliance with Exchange Control Regulation and tax offences.

### Red flags

-  *Sudden and frequent large cash deposits into an account recently opened;*
-  *Sudden and large volume of transactions amongst the accounts to which the subject is a signatory;*
-  *Only ATM withdrawals in China, subsequent to cash deposits in Namibia;*
-  *Transacting behavior is not in line with relevant business activities of such account holding entity or natural person;*
-  *Efforts to get in touch with the account holder may be a challenge; and*
-  *The owner of the business and the bank account lacks knowledge of the activities of the bank accounts.*

### **Case Study 6: Mobile Risks (Potential Tax related offence)**

*A Namibian businessman registered a Close Corporation with BIPA in which he is the sole owner. The business holds a non-resident bank account in South Africa. Such businessman also holds a personal bank account with a commercial bank in Namibia.*

*During the period 01 March 2016 to 16 April 2017, several individuals locally made cash deposits into his personal bank account amounting to NAD 1.7 million. Thereafter, the funds were transferred to the business bank account in South Africa through ATM and Cellphone transfers. Subsequently, he travelled to South Africa where he conducted large in-branch withdrawals, ATM and PoS transactions. The only known source of income into this account was funds transferred from Namibia by the subject. It appears that the account was merely a conduit for ease of movement of funds from Namibia to South Africa. Such funds were not duly declared, thus not subjected to relevant taxes locally.*

<b>Report source type</b>	STR
<b>Key</b>	Namibians deposit cash locally and withdraw funds from a foreign jurisdiction (South Africa).
<b>Perpetrators/Involved</b>	Individuals/Entities, Namibian
<b>Involved sector</b>	Banking
<b>Key risk controls</b>	Account is used merely as a conduit to quickly move funds from Namibia
<b>Designated services</b>	ATM and Cellphone transfers
<b>Instruments used</b>	Bank accounts, cash deposits, ATM and PoS
<b>Offence</b>	Tax related offence

### Red flags

-  *Sudden and frequent large cash deposits into a newly opened bank account;*
-  *Large volume of transactions amongst the accounts to which the subject is signatory;*
-  *Large in-branch withdrawals, ATM and PoS transactions in foreign jurisdiction;*
-  *Transacting behavior is not aligned to the known business profile of the entity; and*
-  *Significant inflow of funds within a short period of time.*

## 10. CONCLUSION

The information contained in this report is essentially intended to provide a general overview of analysis to stakeholders with regards to typologies related to potential tax offences within the relevant sectors, as derived from STRs. It is hoped that the information contained herein is helpful in guiding other related supervision activities in the AML/CFT/CPF space, much as such could help the Receiver of Revenue.

The FIC appreciates relevant institutions' continuous efforts geared towards continuously contributing to ML/TF/PF prevention and combatting. It is equally worth noting that reporting behavior of sectors reflect the effectiveness of controls in such sectors and the level of compliance with the FIA. Such reporting impacts overall combatting efforts. Whilst encouraging that sectors detect and report as much as possible (volumes), it is important to enhance the reporting quality or value adding STRs/SARs. The quality of reports impact combatting efforts such as effectiveness of investigations, prosecutions, asset forfeitures, asset/tax recoveries etc.

It is equally worth stating that the reporting patterns are inconsistent. While reporting in some entities is commendable, some institutions did not file any reports over the entire eleven-year period under review. This has a bearing on the overall level of combatting effectiveness of the AML/CFT/CPF framework. Accountable and reporting institutions are thus encouraged to continuously enhance the effectiveness of their CDD and transactional monitoring systems to enable prudent detecting and reporting.

This report or similar studies on potential tax related offences will be updated periodically when the need arises.

A handwritten signature in black ink, appearing to read "P.P. K. [unclear]".

**L. DUNN**

**DIRECTOR: FINANCIAL INTELLIGENCE CENTRE**