

Suspicious Tax Evasion through Use of Personal Bank Accounts for Business Transaction

Strategic Analysis Report, 2023

Nepal Rastra Bank
FINANCIAL INTELLIGENCE UNIT
(FIU-Nepal)

Disclaimer

- This study report is based on the Suspicious Transaction Reports (STRs) submitted by Banks and Financial Institutions (BFIs) to FIU-Nepal as per provision of Asset (Money) Laundering Prevention Act (ALPA), 2008.
- STRs are only suspicious transactions; therefore, they are not a complete list of tax evasion. Offence could be established only after rigorous process of investigation and prosecution.
- Name of persons/firms, amount and other details used in the case studies are hypothetical. Any resemblance to real persons/firms or real-life event is purely coincidental.

TABLE OF CONTENTS

List of Figures and Tables	3
Abbreviations/Acronyms.....	4
1. Background and Introduction	5
1.1 Tax System of Nepal	5
1.2 Bank Accounts in Nepal.....	6
1.3 Tax Evasion and Business Transactions	7
2. Scope of the study	8
2.1 Rationale of the study	8
2.2 Objectives of the study.....	8
2.3 Methodology used	9
2.4 Significance and limitations of the study	9
3. Analysis and Discussion	10
4. Summary, Conclusion and Recommendations	16
4.1 Summary and Conclusion.....	16
4.2 Recommendations	16
4.2.1 Recommendations to Reporting Entities (REs)	16
4.2.2 Recommendations to Regulators/Supervisors	17
4.2.3 Recommendations to Investigating Agencies	17
Annex 1: Red Flags.....	18
Annex 2: Case Examples	19
1. Huge cash deposit of transaction of money transfer business in personal account of proprietor	19
2. Transaction of trading business through personal account of spouse of proprietor	20
3. Income of unregistered transnational business routed through personal account	21
4. High profile businessman using personal account to evade tax	21
References.....	22

LIST OF FIGURES AND TABLES

Figure 1: Direct and Indirect Taxes in Nepal5

Figure 2: Deposit Composition of BFIs6

Table 1: High Threats of Nepal as per NRA.....7

Figure 3: STR/SAR received by FIU-Nepal10

Figure 4: Monthly STR/SAR received by FIU-Nepal10

Figure 5: STR/SAR receipt: RE-wise.....11

Figure 6: Involved Business type11

Figure 7: Involved Persons' relationship with business12

Table 2: Predicate offence wise receipt of STR/SARs12

Table 3: Predicate offence wise dissemination of STR/SARs to LEAs13

Table 4: Analysis and Dissemination status of STR/SARs14

Figure 8: Involved annualized amount (in NPR. Billion)14

Figure 9: LEAs where STR/SARs disseminated15

Figure 10: Nature of involved business15

ABBREVIATIONS/ACRONYMS

ALPA	Asset (Money) Laundering Prevention Act (ALPA), 2008
BFI s	Banks and Financial Institutions
CBS	Central Bureau of Statistics
DRI	Department of Revenue Investigation
FD	Fixed Deposit
FIU-Nepal	Financial Intelligence Unit, Nepal
IRD	Inland Revenue Department
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
MoF	Ministry of Finance
ML	Money Laundering
NRA	National Risk Assessment
NRB	Nepal Rastra Bank
NPR	Nepalese Rupees
REs	Reporting Entities
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
TF	Terrorist Financing
TTR	Threshold Transaction Report
VAT	Value Added Tax

1. BACKGROUND AND INTRODUCTION

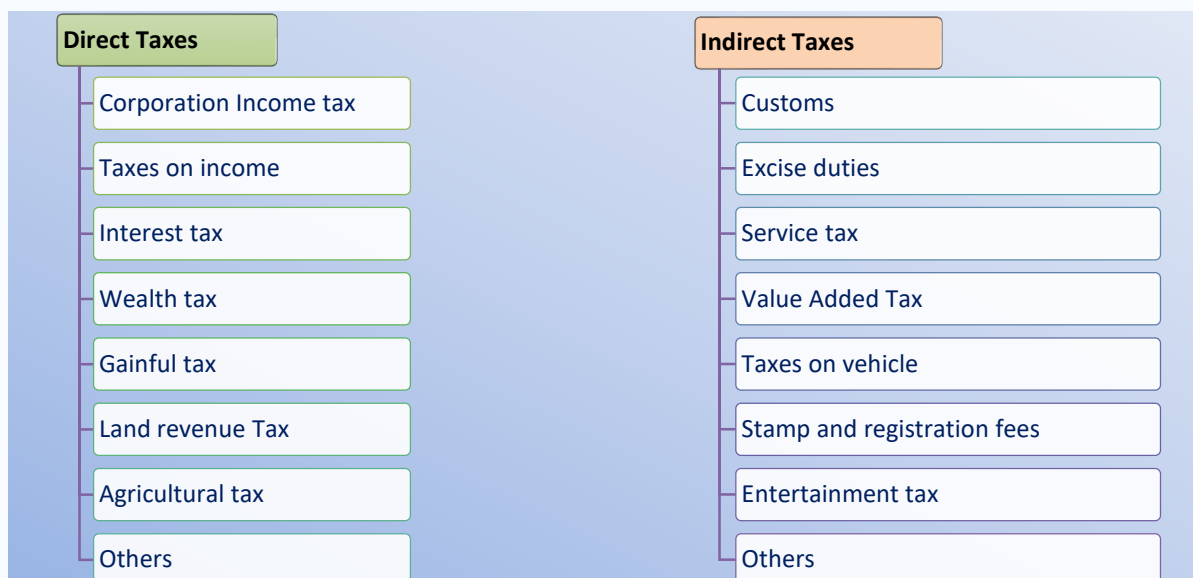
1.1 TAX SYSTEM OF NEPAL

Tax is the major source of revenue for government and is considered as the fundamental requirement for the overall development in the country and functioning of the government. As per constitution of the Nepal, taxes are distributed among three tiers of governments.

The government of Nepal collects a variety of taxes to fund its operations and services, making up Nepal's tax structure. The following are the major tax categories in Nepal:

- **Income tax:** Both individuals and businesses are subject to this tax. Depending on the income level and tax bracket, the tax rates change.
- **Value Added Tax (VAT):** VAT is a tax that is levied on the value that is added to goods and services during the course of production and distribution. In Nepal, the standard VAT rate is 13%.
- **Customs Duty:** This duty is assessed on imported goods and is determined by taking into account both the item's value and the rates of the applicable customs duty.
- **Excise Duty:** This duty is imposed on the manufacture and distribution of a number of products, including alcohol, tobacco, and petroleum goods.
- **Tax on Land and Property:** In Nepal, a tax is imposed on those who own land and property. The location and type of the property affect the tax rate. This type of tax is collected by local government. Local level has sole right to collect this tax.
- **Vehicle Tax:** This tax is assessed to those who own cars, motorcycles, and buses. The size and type of the vehicle affect the tax rate. This tax is under jurisdiction of Province and local level.

Figure 1: Direct and Indirect Taxes in Nepal



In Nepal, there are two types of taxes: direct taxes and indirect taxes. Direct taxes are those that are paid to the government directly by the person or organization. They are derived from profits and income. Indirect taxes are those that are imposed on products and services rather than income and profits. Burden of such taxes falls on consumers. Whoever uses the goods or services pays the tax on such goods or services.

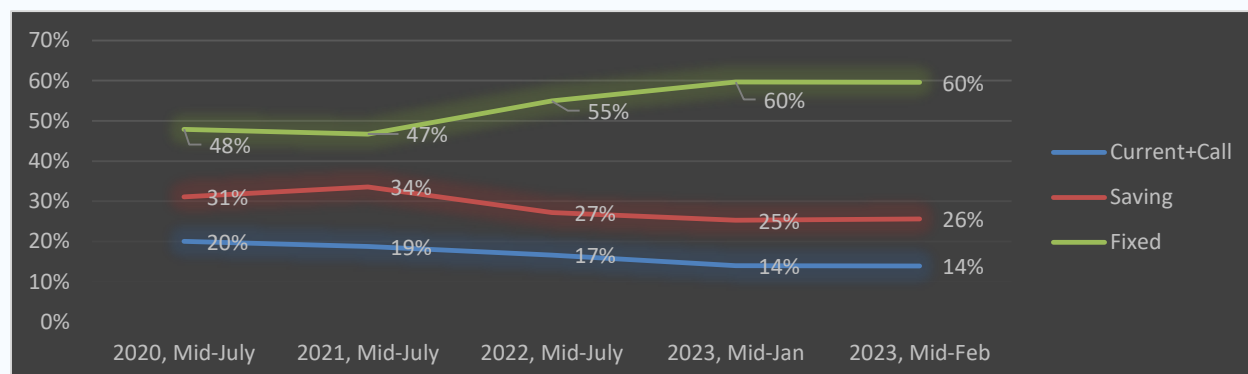
1.2 BANK ACCOUNTS IN NEPAL

Bank accounts are generally categorized as current account, call account, saving account and fixed account. Saving account is used for saving purpose. It is used for deposit by natural persons with the motive of regular transactions and interest earning. Current account is used generally by business entities for regular business related transactions. Current account is the most liquid type of accounts but it does not provide any interest on the deposit. Call account is used by business entities for short term deposits and interest earning. Fixed deposit is used both by natural persons and business entities to earn higher interest and for longer fixed term of period.

Total number of active registered individual saving accounts in A, B and C class Banks and Financial institutions (BFIs) licensed by Nepal Rastra Bank (NRB) are 30,841,076 (NRB, 2023). Whereas, total population of the Nepal is 29,164,578 (CBS, 2023). It shows that a single person operates more than one bank accounts.

Looking at the deposit composition of A, B and C class BFIs since July, 2020, Current account deposit shows decreasing trend. As of Mid-Feb, 2023, Business deposit (*Current & Call only*) contributes 14% (*approx. NPR. 748 Billion*), individual saving deposits contributes 26% (*approx. NPR. 1378 Billion*), Fixed Deposit (FD) of both individuals and business sector comprises 60% (*approx. NPR. 3210 Billion*) and margin & other similar deposits contributes 1% (*approx. NPR. 50 Billion*) of total deposit. Individuals contributed 62% of total deposits (including Fixed deposit) (NRB, 2023). Other than BFIs, saving and credit cooperatives also have Rs. 478 billion as deposits (Economic Survey, 2021/22, MoF). Overall trend of deposit contribution in A, B and C class BFIs is shown below.

Figure 2: Deposit Composition of BFIs



1.3 TAX EVASION AND BUSINESS TRANSACTIONS

Tax evasion is a criminal act where a person or organization willfully fails to pay their actual tax obligations. Tax evaders are faced with serious penalties and criminal prosecution. Tax Evasion is listed as one of the 32 predicate offences as per clause 2(ad) of the Asset (Money) Laundering Prevention Act (ALPA), 2008. Tax evasion is punishable by the Income Tax Act, 2002 of Nepal. Money Laundering (ML) associated with the tax evasion is punishable by the ALPA, 2008. Nepal Government has conducted National Risk Assessment (NRA) in 2016 and 2020. Both NRA reports have identified tax evasion as one of the high threats for Nepal.

Table 1: High Threats of Nepal as per NRA

SN	NRA, 2020	NRA, 2016
1	Corruption (Bribery)	Corruption
2	Tax Evasion	Tax Evasion
3	Financial crimes such as banking offence and <i>Hundi</i>	Human Trafficking and Sexual Exploitation <i>(including smuggling of migrant workers)</i>
4	-	Smuggling including black marketing

The number of accounts as well as use of financial services in Nepal has rapidly increased as a result of increased financial access and financial literacy. With this, the risk of using personal accounts for business transactions as means to evade taxes has also increased, as evidenced by the sharp rise in the number of STRs reported to FIU-Nepal by BFIs in recent years.

This strategic analysis report assesses the likelihood of tax evasion through the use of individual saving accounts to reroute or conceal business transactions. This study has tried to analyze the STR/SARs that FIU-Nepal received from BFIs related to the suspicious tax evasion through use of individual saving bank accounts for business transactions to draw conclusions on trends and typologies.

2. SCOPE OF THE STUDY

2.1 RATIONALE OF THE STUDY

FIU-Nepal conducts strategic analysis on annual basis in line with the interpretative note of FATF recommendation 29. Strategic analysis uses available and obtainable data and information to identify money laundering and terrorist financing related trends and patterns. This can be also used by the FIU or other entities to determine ML/TF related threats and vulnerabilities (FATF, 2012-2022).

Nepal's National Risk Assessment of 2016 and 2020 have identified Tax Evasion as one of the high threat. ML risks associated with the Tax evasion is also vulnerable. Large numbers of STR/SAR received by FIU-Nepal are relate with Tax Evasion. Majority of such STR/SARs shows that use of Individual saving bank accounts for business related transactions is to under-report the business volume and thereby evade taxes. Most of the disseminations to DRI and IRD are related to tax evasion predicate offence which were found to be associated with the use of personal bank accounts for business transactions.

Considering the associated high risks and the trend of STR/SAR reported to FIU-Nepal, emerged a need for strategic analysis on Tax evasion through use of personal bank accounts for business transactions. This study will help REs to understand and to look into deeper intricacies associated with such evasive practices to report more STR/SARs with details. In addition, LEAs including tax authorities will also get deeper insight for investigation and improve their understanding regarding typology of tax evasion through use of personal bank accounts for business transactions.

2.2 OBJECTIVES OF THE STUDY

The primary objective of this strategic analysis report is to study the typology of tax evasion through use of personal bank accounts for business transactions.

The secondary objectives are:

- To examine whether reported STR shows that personal bank accounts are being used for business purpose;
- To put forward policy measures and other recommendations to stakeholders like REs, LEAs, Regulators/Supervisors regarding suspicious tax evasion through use of personal bank accounts for business transactions.

2.3 METHODOLOGY USED

This analysis has been conducted on the basis of STRs received, analyzed, and disseminated between January 1, 2020, and December 31, 2022 i.e. after implementation of goAML software by FIU Nepal.

As the personal bank accounts are generally opened and operated in A, B and C class BFIs, the study is based on the analysis of such bank accounts, and STRs received from the reporting entities. For the study, only those STRs are considered which were suspected as related to tax evasion through the use of personal accounts for business transactions.

The study is done in a descriptive format where findings from the available STR data are shown in percentage, average and summation model.

2.4 SIGNIFICANCE AND LIMITATIONS OF THE STUDY

This strategic analysis report on suspicious tax evasion through use of personal accounts for business transactions may be useful for the Investigating agencies and Law Enforcement Agencies (LEAs) such as Department of Revenue Investigation (DRI), Inland Revenue Department (IRD). This study can be helpful for anyone interested in learning more about tax evasion in Nepal by using personal accounts for business transactions, including policymakers, regulators, supervisors, reporting entities (REs), government officials, academics, researchers, university faculty, students, examiners, examinees, and other interested parties.

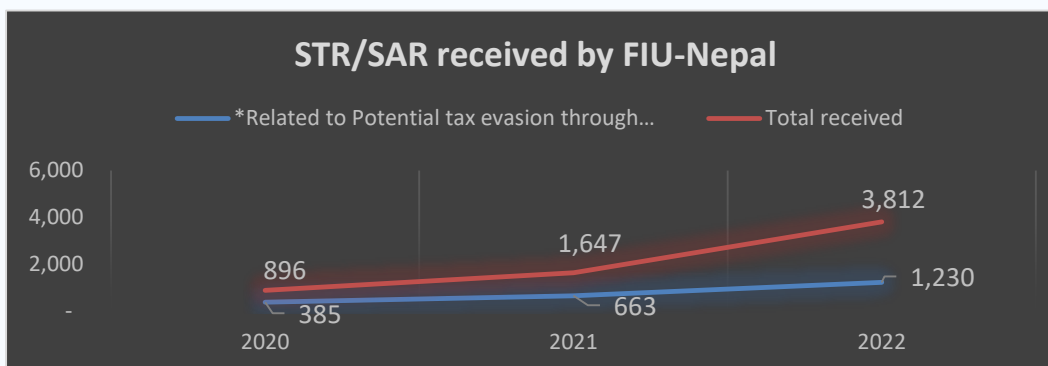
However, the study was conducted with following limitations:

- Study has used the STR data from FIU database of the period starting from January 1, 2020 to December 31, 2022, after implementation of goAML software system.
- This study is based on the STRs received from A, B and C class BFIs and disseminated to DRI and IRD from FIU-Nepal.
- STRs are only suspicious transactions; therefore, they are not a complete list of tax evasion. Offence could be established only after rigorous process of investigation and prosecution.

3. ANALYSIS AND DISCUSSION

During the study period, total annual STR/SARs received by FIU-Nepal was 896, 1647 and 3812 respectively for 2020, 2021 and 2022. Among these, on an average, 37% of STR/SARs were related to the suspicious tax evasion through the use of personal bank accounts for business transactions.

Figure 3: STR/SAR received by FIU-Nepal

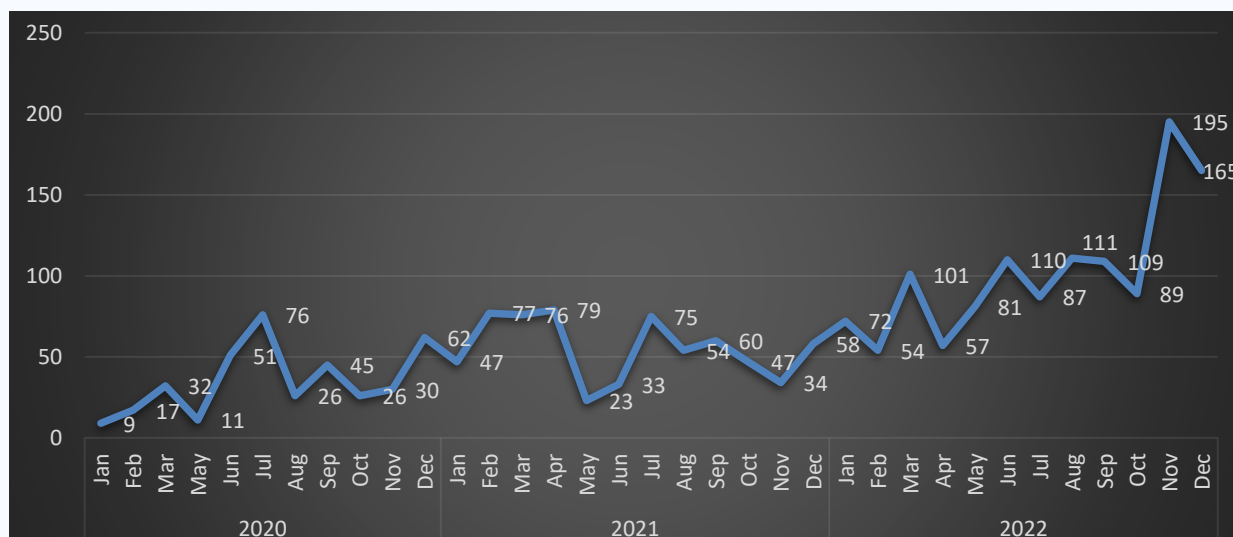


**Related to suspicious tax evasion through use of personal bank accounts for business transactions*

Monthly data of the review period shows that minimum monthly STR/SAR related to suspicious tax evasion through use of personal bank accounts for business transactions was 9, received on January, 2020 and maximum number of such reports was received on November, 2022 which is 195. This also shows that the overall trend of receipt of such STR/SARs is increasing. Data shows that, on an average, monthly 65 STR/SARs are received by FIU-Nepal which are related to the suspicious of tax evasion by using personal accounts for business transactions. Overall monthly trend of receipt of such STR/SARs is shown below.

Figure 4: Monthly STR/SAR received by FIU-Nepal

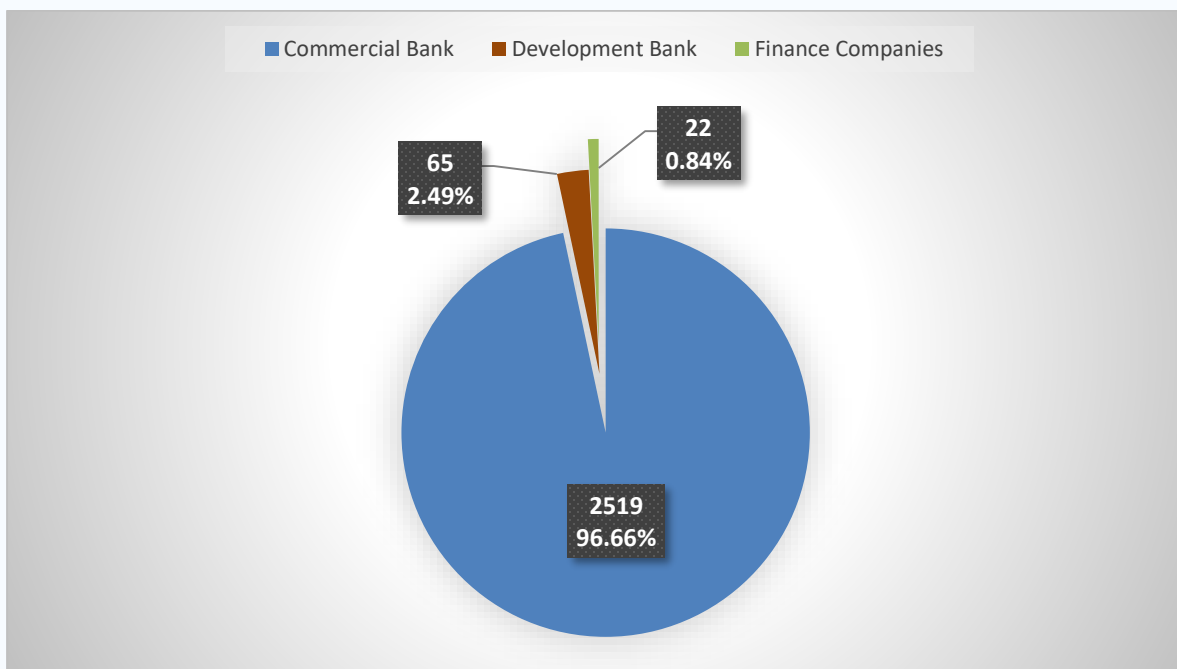
(Related to suspicious tax evasion through use of personal bank accounts for business transactions)



These STR/SARs are received from A, B and C class BFIs, from Jan, 2020 to December, 2022. Almost 96% of such STR/SARs are reported by Commercial banks, 2.49% by Development banks and 1% by Finance companies.

Figure 5: STR/SAR receipt: RE-wise

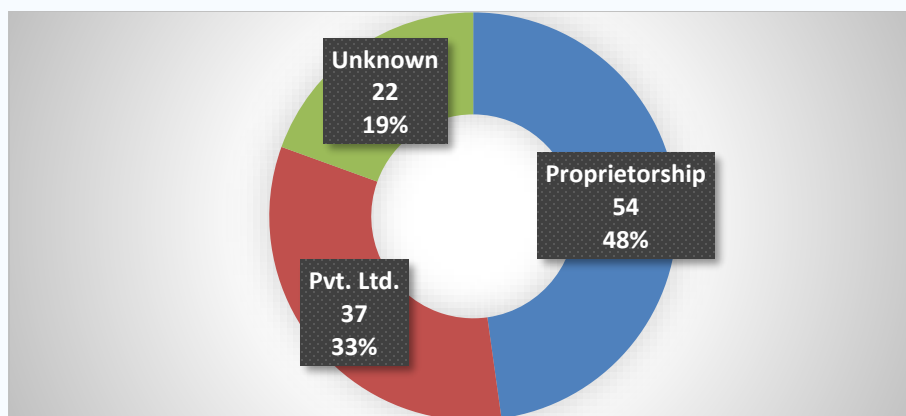
(Related to suspicious tax evasion through use of personal bank accounts for business transactions)



After analyzing reported STR/SARs related to suspicious tax evasion through use of personal bank accounts for business transactions, it is found that 48% of such business transactions are linked with proprietorship business, 33% with private limited companies and registration status of 19% of such firms are unknown.

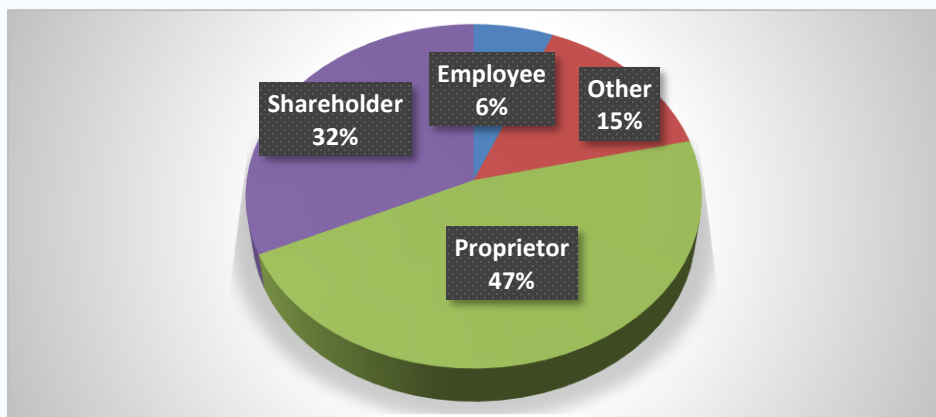
Figure 6: Involved Business type

(In suspicious tax evasion through use of personal bank accounts for business transactions)



As per figure below, personal bank accounts involved for routing business transactions are of proprietor themselves, shareholders, employees and other (family members of proprietor/shareholder or other related parties). Percentage of such involved persons are shown as below.

Figure 7: Involved Persons' relationship with business



Following table shows the aggregate picture of linked predicate offences in STR/SARs received by FIU-Nepal from all REs during the review period through goAML System: -

Table 2: Predicate offence wise receipt of STR/SARs

SN	Predicate Offences	No. of STR/SARs
1	Money Laundering*	3,973
2	Tax evasion (Direct/Indirect)	1,859
3	Money, banking, finance, foreign exchange, negotiable instruments, insurance, cooperatives related	754
4	Fraud	551
5	Lottery, gambling, donation related,	469
6	Firm, partnership, company, association related	281
7	Transportation, education, health, medicine, foreign employment related	118
8	Forgery	71
9	Real estate and property related	59
10	Corruption	55
11	Counterfeiting currencies	28
12	Citizenship, immigration and passport	16
13	Smuggling	13
14	Black marketing, consumer protection, competition, supply	11
15	Others	60
	TOTAL	8,318**

*Listed Predicate offence not identified by REs

** REs can select more than one predicate offence actual number of STR/SARs this review period was 6,355.

In some cases, when REs are not able to identify associated predicate offence or has suspicion in source of fund, REs can report such STR/SAR by selecting 'Money Laundering' as predicate offence as per FIU-Nepal's SAR/STR reporting guideline. Based on the overall trend of predicate offence of STR/SAR reported, we can infer that most of the STR/SARs in such cases (unidentified predicate offence) are also associated with the 'Tax evasion'. Among these received STR/SARs under the heading of 'Money Laundering' and 'Tax evasion', 2,278 STR/SARs are found to associated with the suspicious tax evasion through use of personal bank accounts for business transaction.

Following table shows the disseminated STR/SARs to different Law Enforcement Agencies (LEAs) over the review period: -

Table 3: Predicate offence wise dissemination of STR/SARs to LEAs

SN	Predicate Offence	No. of STR/SAR disseminated
1	Money, banking, finance, foreign exchange, negotiable instruments, insurance, cooperatives related	197
2	Tax evasion (Direct/Indirect)	133
3	Fraud	129
4	Lottery, gambling, donation related	66
5	Money laundering	59
6	Corruption and Bribery	14
7	Others	33
	TOTAL	631

From above table, total dissemination of STR/SAR related to tax evasion was 133, which were disseminated to DRI and IRD. Among these, 113 STR/SARs are found to directly/indirectly associated with the suspicious tax evasion through use of personal bank accounts for business transactions. Following table shows the total number of STR/SARs analyzed and disseminated by FIU-Nepal in the review period that are related to suspicious tax evasion through use of personal bank accounts for business transactions.

Table 4: Analysis and Dissemination status of STR/SARs

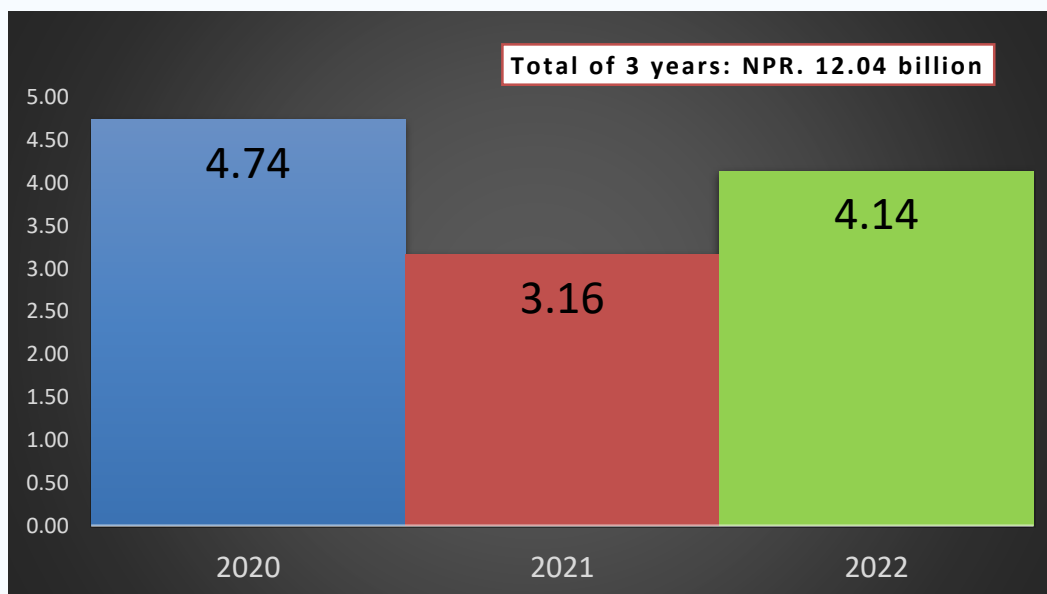
(Related to suspicious tax evasion through use of personal bank accounts for business transactions)

Year	Analysed	Postponed	Disseminated*
2020	40	0	40
2021	51	24	27
2022	113	67	46
Total	204	91	113

*Though the STR/SARs were received by FIU-Nepal in given years (i.e. 2020, 2021 & 2022), dissemination to respective LEAs may be done in different dates (i.e. 2020, 2021, 2022 & also in 2023).

Disseminated data shows that suspected value of tax evasion are total of NPR. 12.041 billion (annualized). For the year 2020, such amount is suspected to be NPR. 4.74 billion, for 2021, NPR. 3.16 billion and for the year 2022, NPR. 4.14 billion. Such huge business related transactions are suspected to be routed through personal accounts for the purpose of tax evasion.

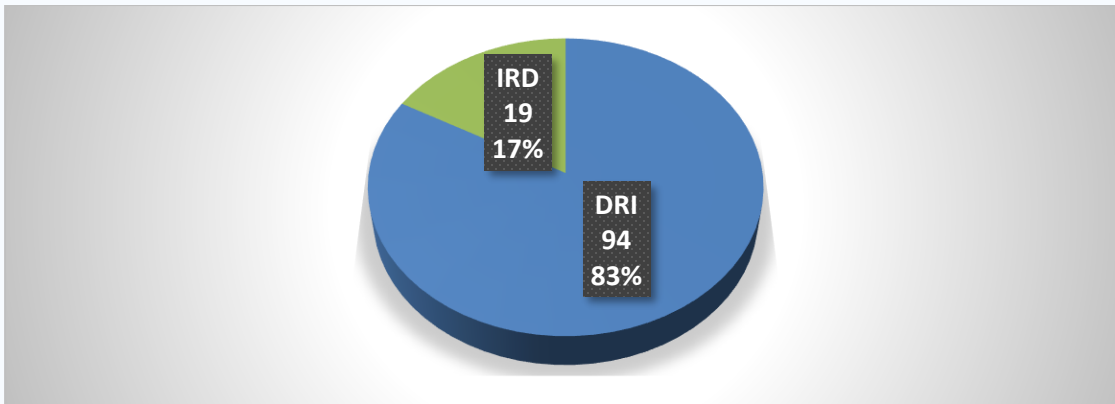
Figure 8: Involved annualized amount (in NPR. Billion)



After analysis, STR/SARs are disseminated to Law Enforcement Agencies (LEAs) for further investigation as per Asset (Money) Laundering Prevention Act, 2008. Such transactions are mainly conducted to evade taxation. FIU-Nepal has disseminated such cases mainly to two agencies: Department of Revenue Investigation (DRI) and Inland Revenue Department (IRD). Out of these 113 cases, agency-wise dissemination is as below:

Figure 9: LEAs where STR/SARs disseminated

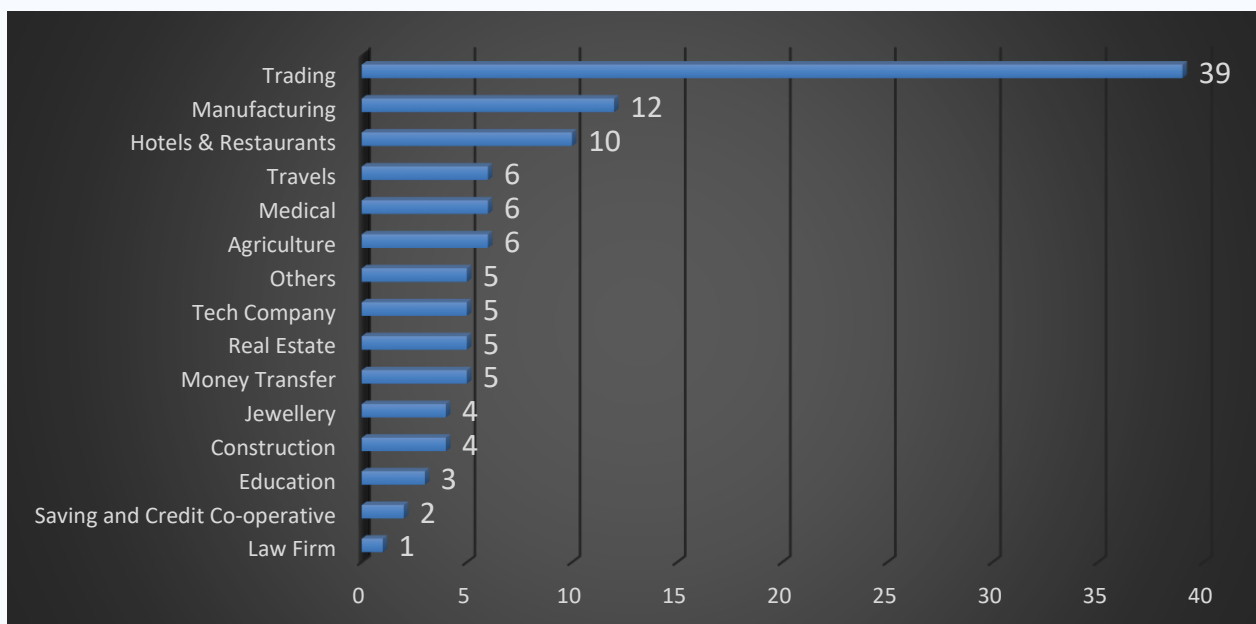
(Related to suspicious tax evasion through use of personal bank accounts for business transactions)



Personal accounts used in these 113 cases are 249. This implies that multiple personal accounts are found to be used for transaction of a single business. Such involved personal accounts may be of proprietor or shareholder, their family members or employees.

The Nature of business of the involved firms were found to be diverse. Maximum number of such firms (i.e. 39 firms) are involved in trading business which involves retail and wholesale trading of groceries, hardware, liquors etc.¹² Manufacturing business such as manufacturing of handicrafts, carpets, metal crafts flours, foods, furniture etc. 10 Hotels and Restaurant businesses are also involved in routing business transactions via personal accounts. Other such businesses are: travels, medical, agriculture, tech company, real estate, money transfer, jewellery, construction and education.

Figure 10: Nature of involved business



4. SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1 SUMMARY AND CONCLUSION

- 37% of STR/SARs received (*between Jan, 2020 to Dec, 2022*) were related to the suspicious of tax evasion through use of personal bank accounts for business transactions. On an average, monthly 65 such STR/SARs are received by FIU-Nepal during this period.
- 48% of such business transactions are linked with proprietorship business, 33% with private limited companies and 19% of such firms' registration status is unknown. Nature of such involved businesses are trading, manufacturing, hotels & restaurants, travels, medical etc.
- Multiple personal accounts were found to be used for transaction for a single business. For such transactions, personal accounts of proprietor or shareholder is used in most of the cases. Other involved are: family members, employees etc.
- During the review period, FIU-Nepal has analysed 204 such cases and 113 were disseminated to LEAs (DRI and IRD) for further investigation.
- Based on disseminated cases, involved suspicious amount is approx. NPR. 12 billion (*annualized*).
- From above analysis, we can conclude that the risk of using personal accounts for business transactions to evade taxes is in increasing trend, evidenced by the rise in the number of STR/SARs reported to FIU-Nepal by BFIs in recent years.

4.2 RECOMMENDATIONS

All the stakeholders need to play an active role for harmonization in nature of business and type of account used for the related transactions. Based on the findings of the report, recommendations to REs, Regulators/Supervisors and LEAs in order to discourage suspicious tax evasion through use of personal bank accounts for business transactions are listed below:

4.2.1 Recommendations to Reporting Entities (REs)

- Customers need to be made aware on types of accounts and its purpose at the time of customer onboarding and on a regular basis.
- Business firms and companies need to be made aware regarding use of firm's or company's account while conducting business related transactions.
- REs should develop indicators/red flags that can detect the tax evasion through use of personal bank accounts for business transactions on their transaction monitoring process. In order to make the process effective REs can opt for transaction monitoring system.
- Transaction monitoring should also be done in the personal bank accounts of shareholders/proprietors, close family members and key employees in order to identify any linked transactions and possible linkage.

4.2.2 Recommendations to Regulators/Supervisors

- Use of personal bank account for business related transactions should be discouraged through directives.
- Regulators should impose fines and penalties on use of personal savings account for business related transactions.
- Unorganized sectors (including real estate agents) should be licensed, regulated and supervised through amendments in the prevailing laws. Transactions of such sectors should be conducted via bank accounts of business rather than current practice of personal bank accounts.

4.2.3 Recommendations to Investigating Agencies

- Investigating agencies need to include the personal accounts of shareholders, promoters, proprietors, key staffs and their close associates while undergoing tax assessment or any other kind of investigation.
- Common business registry should be developed to strengthen the investigation process. Such registry should include the businesses registered in municipality, department of commerce, office of the company registrar and any other registering authorities.
- Given the risk categorization of the past two NRA report, tax evasion is a high risk predicate offense. Investigators should prioritize its investigation on suspicious tax evasion through use of personal bank accounts for business transaction.

ANNEX 1: RED FLAGS

Following 'Red flags' (related to suspicious tax evasion through use of personal accounts for business transactions) may help REs to detect if a transaction is suspicious: -

- Huge transaction in personal saving account.
- Structuring/smurfing, in which business related transactions are broken up into small amounts and transacted through personal accounts to avoid detection and questioning by BFIs. e.g. Company 'A' is not transacting much. However, evidence from Company B would suggest that Company A is active and conducting business through other channels.
- If unexplained transactions are repeatedly conducted between personal and business accounts.
- Sales turnover reflected in bank statement is reasonably different from that of audited report, indicating transactions from personal accounts.
- Customer consistently makes cash transactions that are significantly below the reporting threshold amount in an apparent attempt to avoid triggering the identification and reporting requirements.
- Personal account of shareholder/signatory of the company receives fund transfer from company account in the name of borrowing.
- Customer/client is linked to adverse media news (national or international) regarding tax evasion or related issues.
- Any act or transaction is not found reasonable or is found to have been conducted with linked company/entity where the transaction has no justifiable purpose.
- Unusual and high transaction in the business person's other linked accounts, e.g. of other family members, close friends, relatives etc.

Disclaimer: Above list is a summary of best practices to be adopted by the REs when dealing with the execution and/or review of client's transactions/activities and the assessment of suspicion. It is intended solely as an aid and requires constant updating. It requires frequent adaptation to changing circumstances and new methods of laundering money from time to time. It is not an exhaustive list of steps. This red flags cannot be evidence of complying with the requirements of the AML/CFT Act.

ANNEX 2: CASE EXAMPLES

1. Huge cash deposit of transaction of money transfer business in personal account of proprietor

While reviewing Updated KYC of Mr. ABC, Mr. ABC has declared his income source as family business. The estimated monthly and annual transactions declared by Mr. ABC is NPR. 10 Million and NPR. 100 Million respectively whereas he has declared the estimated annual income as NPR 1 Million. As per Updated KYC, he has a family business named XYZ Pvt. Ltd. and purpose of account opening was declared as Business.



Upon monitoring his saving account, unusual transactions pattern with high frequency (both deposit and withdrawal) has been observed. Amount of approx. NPR 170 Million has been deposited in account since 2019 till 2021. It was noted that 85% of the deposit i.e. approx. NPR 145 Million was done through cash and 95% of the withdraw i.e. approx. NPR 160 Million was done through transfer. Similarly, the amount has been deposited from 29 branches (i.e. major volume from the Branch nearby the business location) as well as the amount has been withdrawn from 2 branches (i.e. major volume withdrawn from the Branch nearby the business location).

On scrutinizing the KYC of XYZ Pvt. Ltd., the business is involved in Money transfer related business on which the Mr. ABC is a proprietor. Further reviewing the transaction pattern of Mr. ABC, amount was deposited through cash majority by account holder himself mentioning as business, remittance business, remittance collection etc. Similarly, while reviewing the withdrawal pattern, major amount was transferred to various remittance business i.e. amount was credited through cash from account holder as well as various conductor which has been debited in bulk through transfer or CIPS to various remittance related business or transferred to various individual person. Amount of approx. NPR 94 Million was deposited mentioning remarks as business, remittance business, remittance collection etc. which is 55% of total deposit transaction. Major amount was credited and debited through transfer to/ from various remittance related business.

After observation of above analysis, it seems that the remittance transaction was routed through his individual saving account despite of being his own remittance related business (XYZ Money Transfer) as source and nature of most of the deposit transaction was mentioned as business, remittance collection etc. and the ultimate beneficiary of saving account Mr. ABC seems to be XYZ Money Transfer.

The account has a suspicious nature of transaction and hence bank reported STR to FIU-Nepal. After thorough analysis and identifying more linkages with the conductors and business parties, FIU-Nepal disseminated the case to Department of Revenue Investigation for tax evasion investigation.

2. Transaction of trading business through personal account of spouse of proprietor

Mr. Ram is a Manager of Capital Trading Company. Mrs. Sita, wife of the client of the bank (Mr. Ram), is a Proprietor of this Trading Company, which deals with telecommunication business.



Huge turnover deviation can be seen in account, actual annual turnover exceeds estimated annual turnover by approx. 50 times, where estimated annual turnover is Rs. 5 Million and actual annual turnover for last one year is approx. Rs.250 Million. The transactions in his individual account are conducted by multiple parties related with telecommunication business. Hence, entire transactions in his account are related to telecommunication business.

Total of Rs. 450 Million has been transferred to the account from the account of Capital Trading, in the period of one year. Business transaction of Capital Trading company is conducted through Mr. Ram's personal saving account. Business transaction of the Capital Trading Company is conducted through personal saving account of Spouse. It may be an attempt to evade corporate tax.

Business transaction of the company – "Capital Trading", owned by Mrs. Sita, wife of the client Mr. Ram, where Mr. Ram is involved as a Manager, is conducted through his personal saving account. Since, business transaction is conducted through personal saving account of Spouse, it may be an attempt to evade corporate tax and hence FIU-Nepal disseminated this case to Inland Revenue Department for further investigation.

3. Income of unregistered transnational business routed through personal account



Customer has used saving account to receive the business related inward fund from foreign jurisdiction. He has deposited NPR. 9 Million (approx. USD 75,000) in saving account which was sent by third party of Country 'A' through Inward telex payment. After few days, he has transferred that fund to his current account and has done Telegraphic Transfer (TT) to import various medical items from country 'B' related to Covid-19 (i.e. Mask and Infrared Temperature Gun). Customer have been trying to get some short term benefits by taking the advantages of lockdown for his business, which seems to be unregistered. Same was also published in several newspapers. Based on adverse news and unusual transactions in personal account, Bank submitted STR to FIU-Nepal. After analysis, FIU-Nepal found suspicion about personal saving account been used by customer to evade tax evasion and disseminated to Inland Revenue Department for further investigation.

4. High profile businessman using personal account to evade tax

Mr. PSD had been maintaining personal saving account in a bank for long time. Mr. PSD a high profile businessman related to Steel and Cement Industry is associated with multiple companies. It has been observed that there are regular and large transaction in the personal account of Mr. PSD. Fund is seen transferred from various company accounts where Mr. PSD is the Director, Shareholder or Signatory. For last two years, transaction of NPR. 190 Million seen in the personal saving account of Mr. PSD and it seems unusual for personal saving account.



As per the section 101 of companies Act, 2006, it is prohibited to sanction loans to the officers or shareholders of the company. Looking at the bank statement of Mr. PSD, NPR. 26 Million has been credited in his personal account (multiple transactions) from those company accounts and the reason is mentioned as 'Borrowings'.

Thus Interrelated and structured transactions including cash transactions seen in this account is suspected to be business related transactions conducted through personal accounts for tax evasion purpose and also against the provision of company act, hence the case is disseminated to Department of Revenue Investigation for further investigation.

REFERENCES

- Central Bureau of Statistics, CBS (2021), *National Population and Housing Census 2021.National Report. Volume 01*. Kathmandu, Nepal: Central Bureau of Statistics.
- Financial Action Task Force, FATF (2012-2022), *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - The FATF Recommendations*, FATF, Paris, France, Retrieved from: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>
- Financial Intelligence Unit of Nepal, FIU-Nepal (2021), *Suspicious Transaction Reporting & Suspicious Activity Reporting (STR/SAR) Guidelines*. Retrieved from <https://www.nrb.org.np/fiu/suspicious-transaction-reporting-suspicious-activity-reporting-str-sar-guidelines/>
- Ministry of Finance, MoF (2021), *Economic survey*. Singh Durbar, Kathmandu: Ministry of Finance, Government of Nepal. Retrieved from <https://mof.gov.np/site/publication-detail/3105>
- Nepal Rastra Bank, NRB (2023), *Database on Nepalese Economy*: Retrieved from <https://www.nrb.org.np/database-on-nepalese-economy/financial-sector/>

SUSPICIOUS TAX EVASION THROUGH USE OF PERSONAL BANK
ACCOUNTS FOR BUSINESS TRANSACTION

Strategic Analysis Report, 2023



**FINANCIAL INTELLIGENCE UNIT, NEPAL
(FIU-Nepal)**

NEPAL RASTRA BANK

Baluwatar, Kathmandu
Tel: 01-4410201(Ext. 842/841)
Email: fiupolicy@nrb.org.np
Website: www.nrb.org.np/departments/fiu

