

Money Laundering and Tax Evasion in Canadian Real Estate:

The Adequacy of Canadian Legislation and Enforcement

Research Project for Emerging Issues/Advanced Topics Course

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I – INTRODUCTION

OVERVIEW

Over the past several years, there has been much reported in the news on money laundering in Canada. According to Robert Diab of Thompson Rivers University, a public inquiry held in British Columbia found that the City of Vancouver has become a haven for these criminal activities, particularly as it relates to real estate purchases and transactions.¹ Further, according to a Global TV report in January 2020, it was revealed that nearly 75% of people accused of money laundering had their charges stayed.² This resulted in a conviction rate of approximately 27%. Data from 2010 to 2014 indicate that only 169 charges of money laundering led to convictions.³

There are a number of factors, which, when combined together, have created an ideal environment for money laundering activities. These include exemptions from transaction reporting, lax regulations surrounding property ownership, and a tax system that provides for low capital gains taxes on capital dispositions. Canada's capital gains tax ranks #18 when compared to other

¹ Diab, Robert, "Robert Diab: B.C.'s problems with money laundering run so deep they'll be hard to resolve in the short term", *Vancouver Sun*, January 31, 2020

² Russell, Andrew, "Not just B.C.: Most provinces in Canada fail to secure convictions in money-laundering cases", *Global News*, February 10, 2019

³ Cooper, Sam, "U.S deems Canada 'major money laundering country' as gangs exploit weak law enforcement" ,*The National Post*, 2 April 2019

countries around the world.⁴ Denmark has the highest rate at 42% while other European countries have reduced the effective tax rate to 0%.

Another report, this time by the CBC in 2019, discussed that weak rules in Canada had created the current favourable environment for these activities.⁵ Contributing to the level of unchecked money laundering, an audit performed by the Financial Transactions and Reports Analysis Centre of Canada (FinTRAC) in 2018 showed that 172 of 500 companies violating money laundering rules were real-estate developers, brokers, and sales representatives.⁶ The report noted that there was a misunderstanding across the sector as to what constituted money laundering, factors to look for, and whether or not it only related to cash transactions.

Compared to other countries, the regulatory environment in Canada is lax. For example, in Japan, some banks have had the government impose a limit on the overseas transactions which they are able to complete as part of the government's attempt to curb money laundering⁷. In the United

⁴ Pomerleau, Kyle, "U.S. taxpayers face the 6th highest top marginal capital gains tax rate in the OECD", *taxfoundation.org*

⁵ Pittis, Don, "Weak rules have made Canada a magnet for money laundering: Don Pittis", *CBC News*, May 7, 2019

⁶ FinTRAC Annual Report, 2017-2018

⁷ "Japan Post Bank to cap overseas remittances to ¥5 million a day to tackle money laundering", *The Japan Times*, August 9, 2019

States, a pilot project launched by the Internal Revenue Service in 2016 targeted title insurance companies⁸ for compliance.

OBJECTIVE

The purpose of this paper is to provide an overview of taxation in Canada as it pertains to real estate, with a look at reporting and enforcement activities, as well as the current legal and ownership rules in Canada contrasted to other jurisdictions. Once the existing framework has been discussed, the issue of adequacy can be answered.

METHODOLOGY

A broad search was conducted for articles and research previously done in various aspects of the topic, with an emphasis placed in six areas:

- 1) How the current taxation system in Canada helps facilitate money laundering
- 2) How these funds end up in Canada and how they are placed within the financial system
- 3) How the current legal system as it pertains to handling transactions and ownership fails to safeguard Canada against money laundering through real estate, contrasted to other jurisdictions
- 4) An overview of different money laundering techniques

⁸ Rubinfeld, Samuel, "U.S. Expands Coverage of Real Estate Anti-Money Laundering Program", *The Wall Street Journal*, November 15, 2018

- 5) How the role of a forensic accountant can be developed to be more effective in money launder transactions through real estate, and
- 6) The improvements and procedures, if any, that could be learned from the experience in other jurisdictions that could be implemented in Canada.

II – TAX REPORTING AND ENFORCEMENT IN CANADA

OVERVIEW AND ISSUES

Tax law in Canada is primarily based on two principles: residency and self-assessment. Depending on how a taxpayer⁹ is classified, a certain set of tax rules will apply. In general, the calculation of taxes in Canada is as follows:

3 The income of a taxpayer for a taxation year for the purposes of this part is the taxpayer's income for the year determined in part by the following rule:

(a) determine the total of all amounts each of which is the taxpayer's income for the year (other than a taxable capital gain from the disposition of property) from a source inside or outside Canada, including, without restricting the generality of the foregoing, the taxpayer's income for the year from each office, employment, business *and property* (emphasis added),

(Income Tax Act (Canada) Sec 3(b))

⁹ A taxpayer is defined to be an individual, partnership, trust, or corporation. See Income Tax Act (Canada)

The premise of self-reporting is also based on trust. For the 2017 taxation year, the Canada Revenue Agency reported that 28,519,410 individual tax returns were filed¹⁰. For the same year, the Agency reported that nearly 10% (or 2,540,130) of those returns filed were late-filed.¹¹

One of the problems inherent in a self-assessment tax system is the complexity in certain aspects of tax legislation.¹² This can lead to a range of issues from honest errors (such as claiming a deduction the taxpayer is not entitled to receive) to intentional falsification or omission (such as failing to report a sale of property, failing to report rental income, or under-reporting income from a side business).

The cash business is a problem in Canada. According to Statistics Canada¹³, the underground economy accounted for more than \$45 billion of activity in 2013. Some of this activity is consumer-justified ("I pay too much tax" or "I got a better deal") while others are criminal-based. A key player in the underground economy, not surprisingly, is the residential construction industry. *Canadian Business* reported that, based on information from Statistics Canada, this sector accounted for 28.3% of the underground economy.¹⁴

¹⁰ See Canada Revenue Agency "T1 filing compliance 2017"

¹¹ Ibid

¹² CPA Canada "Canada's Tax System: What's so wrong and why it matters"

¹³ StatsCan "The Underground Economy in Canada, 2013", <https://www150.statcan.gc.ca/n1/daily-quotidien/160620/dq160620b-eng.htm>

¹⁴ MacDonald, Chris, "How big is Canada's underground economy: \$42 billion", *Canadian Business*, 4 May 2015

With the self-assessment system comes the understanding that verification procedures may be performed by the Canada Revenue Agency (“the Agency” or “CRA”) in order to verify certain items reported. However, in my experience, and in the experience of several of my colleagues in public practice, this verification process has focused on what we call the "low hanging fruit" with the same information being requested year after year. This includes items such as small-dollar donation receipts, ongoing medical expenses associated with individuals confined to long-term care homes, proof of child, and even signed copies of T1032 Split Pension Deduction forms.

Given the associated complexity of Canadian tax regulations, it may not be surprising to find that, based on an internal Agency memo, there is an implied culture of the acceptability of tax evasion.¹⁵ The same study found that 20% of "respondents believed the benefits of tax cheating outweighed the risks." Further, 26% of the respondents did not believe that they would get caught, and "did not view tax evasion on amounts less than \$1,000 to be serious tax cheating."

The Agency has the mandate to administer the tax system and has associated investigative and enforcement powers delegated to it. However, there are grounds that these powers are either abused or that investigating officers apply preferential treatment.¹⁶

¹⁵ Wallace, Aiden, “Problem of tax evasion 'challenging' as 20% of Canadians willing to risk it: Study”

¹⁶ Aiello, Rachel, “CRA does not consistently apply auditing rules to all taxpayers: AG”, *CTV News*, 25 November 2018

According to a report by CBC News, there were more than 1,000 instances of the Agency employees being disciplined for misconduct over a four-year period.¹⁷ These offences included conflict of interest, bribery, or even yelling at a taxpayer. In another high-profile case, a former CRA team leader, Antonio Girardi, was charged with breaches of trust, forgery, fraud, and conspiracy. He was one of 8 former Agency employees charged by the Royal Canadian Mounted Police (“RCMP”).¹⁸

Following his report on activities of CRA, Senator Percy Downe wrote that "the agency has been repeatedly caught trying to mislead Canadians."¹⁹

Having identified these issues, it is not surprising that a CPA Canada investigative report concluded that "many Canadians have lost trust in the tax system, which may contribute to reduced compliance and increased underground activity".²⁰

With respect to real estate dispositions, tax law in Canada builds on the "assignment of income doctrine". This is a judicial doctrine that had its beginnings in the *Lucas vs Earl* case heard at the

¹⁷ Thompson, Elizabeth, “More than 1,000 CRA employees disciplined for misconduct over past 4 years”, *CBC News*, May 28, 2018

¹⁸ Ibid

¹⁹ Downe, Senator Percy, “Sen. Percy Downe: It's good CRA is finally agreeing to quantify Canada's tax evasion problem”, *The Province*, April 5, 2018

²⁰ “Canada’s tax system: what’s so wrong and why it matters”. *CPA Canada*

United States Supreme Court in 1930.²¹ This expanded into an analogy of fruit vs a tree in that "the fruits cannot be attributed to a different tree from that on which they grew."²²

Ten years later, in *Helvering vs Horst*, the US Supreme Court in its ruling added income earned from property to the definition that was initially laid out in 1930.²³

REPORTING OF REAL ESTATE TRANSACTIONS – COMPLIANCE AND ENFORCEMENT

There were 1,678,880 returns that reported net rental income during 2017.²⁴ 29,450 non-resident tax returns were filed during the same period.²⁵ There are no statistics to determine if 100% of rental properties were reported.

However, when rental property income is suddenly not reported when it has been reported for some time, this can raise a flag that there has been a potential disposition of property. There has always been a requirement to report the sale of investment capital property, and since the 2016 tax year, a requirement to also report the sale of a principal residence.

²¹ *Lucas v Earl*, 281 US 111 (1930)

²² *Ibid*

²³ *Helvering v Horst*, 311 US 112 (1940)

²⁴ See Canada Revenue Agency "Income statistics 2019 (2017 tax year) – all returns by major source of income"

²⁵ See Canada Revenue Agency "T1 filing compliance 2017"

Determining which sales relate to money laundering is difficult. According to the Canadian Housing Survey, 2018,²⁶ Statistics Canada compiled the following data for reasons for moving (which can be related to a home sale):

Table 1- Results from Housing Survey

	<i>Purpose</i>	<i># of households</i>
1	To upgrade to a larger dwelling or better quality dwelling	1,427,800
2	To be in a more desirable neighbourhood	1,036,700
3	To become a homeowner	939,500
4	Due to a change in household or family size	926,200
5	To reduce housing costs	741,400

According to documentation released by the Agency, they are using a combination of advanced risk-assessment tools, analytics, leads, and third-party data²⁷ to review tax filings and other documentation. A new tool was rolled out in 2017, titled “the Postal Code Project”, and involves

²⁶ Statistics Canada, Results from the New Housing Survey, 2018

²⁷ Canada Revenue Agency “How the Canada Revenue Agency addresses non-compliance in the real estate sector”

targeted audits by postal code²⁸. This project, by its very name, involves scoring and matching reported income to average incomes reported for particular postal code regions in Canada. The Agency began with high net worth areas (such as West Vancouver) to match income to lifestyle and to ensure all income has been reported.

The project came on the heels of the Panama Papers incident which created difficult questions for the Canadian government to answer. The total number of Canadian entities linked to 1,450 offshore accounts and corporations included:²⁹

- 2,700 individuals
- 700 companies
- 2 foundations

The degree to which these entities were involved in money laundering is not known as the Agency has not released any further information other than that they have started some investigations. Other tools involve analyzing returns by comparing a filed return to similar returns in the same sector or geographic area.

²⁸ Beeby, Dean, “Live at a tony address? Taxman targeting Canada’s richest neighborhoods to nab tax cheats”, *CBC News*, 27 November 2017

²⁹ Based on Appleby’s “Master Client Database” (2014) shared by the International Consortium of Investigative Journalists – see related CBC article referred to in footnote above

The Agency has flagged the real estate sector as one of high risk. The following five issues are key areas of concern:³⁰

- Reported income does not support lifestyle
- Property flipping activities
- Professional contractors or renovators
- Speculators or middle investors
- Individual renovators

The Agency's efforts in monitoring tax compliance in real estate have been improving over the past few years and, recently as part of the Postal Code Project, investigators have focused their efforts on the Lower Mainland in BC and in the Greater Toronto Area since 2015.³¹ Between 2015 and 2019, the Agency conducted a number of audits relating to real estate transactions in both Ontario and British Columbia. A total of 50,323 audits were completed, with a combined assessment value of \$1.4 billion.³²

³⁰ Canada Revenue Agency “How the Canada Revenue Agency addresses non-compliance in the real estate sector”

³¹ Ibid

³² Ibid – see Appendix 1

Ansia Storm, a tax practitioner and forensic accountant in South Africa, wrote that "no clear link has yet been made between tax evasion and money laundering although many (or all) of the professionals in this field may have already assumed the relation"³³

I do not agree with this assertion for one major reason: most money launderers will evade tax given the nature of their activities, but tax evaders are generally not money launderers. There is not a two-way causal relationship between the two activities.

There is a statement from Maureen Maloney of Simon Fraser University which appears to support this argument. In 2018 she was appointed the chair of an expert panel created by the BC government to examine money laundering in the province. In her report she stated, "Money launderers are often also tax evaders."³⁴

OUTCOME OF ENFORCEMENT ACTIVITIES

It is reported that the Agency has been very active in investigating and pursuing cases of tax evasion particularly as it relates to real estate transactions, but slow to examine potential instances of money laundering. However, there has been more activity through joint investigations with the

³³ Storm, Ansia, "Establishing the link between money laundering and tax evasion"

³⁴ Maloney, Maureen et al "Expert panel on money laundering in BC real estate"

Royal Canadian Mounted Police (“RCMP”). On February 12, 2019, the Agency released the following statement:³⁵

“The Canada Revenue Agency (CRA) announced that yesterday it executed search warrants in the greater Montréal and Toronto areas, proceeded with restraint orders of proceeds of crime and laid tax evasion charges as part of a joint criminal investigation with the Royal Canadian Mounted Police (RCMP) targeting a money laundering and tax evasion scheme.

Tax evasion charges under the *Income Tax Act (ITA)* were filed against Mohamad JABER of Laval (Quebec) and Nader GRAMIAN-NIK of Vaughan (Ontario) for failing to report revenues totalling several million dollars for tax years 2013 to 2017. In accordance with the proceeds of crime provisions of the Criminal Code, the CRA also obtained restraint orders with respect to six properties linked to these individuals, for an estimated total value of \$15.8 million. Approximately 50 CRA investigators took part in the searches with the RCMP.”

What seems ironic is that despite the publicized enforcement actions currently being performed by the Agency (which has resulted in \$4.4 billion in assessments associated with tax evasion), there

³⁵ “Money laundering scheme: enforcement measures taken by the Canada Revenue Agency in a joint investigation with the Royal Canadian Mounted Police”, *Government of Canada*, February 12, 2019

are currently over 3,000 cases that are in various stages of the court system.³⁶ Ted Gallivan³⁷ with the CRA explained that there are issues with the existing legislation. "Obviously you need that tougher legislation. We do need stricter enforcement, but as the Agency keeps on losing, or has lost some significant cases, we definitely need stronger legislation on this and reform of international corporate rules."³⁸

In 2018, a US State Department report to the United States Congress made reference to the legislation in Canada, and in particular to privacy laws and FinTRAC. The report noted that "(Canada's) legislative framework does not allow law enforcement agencies access to FinTRAC databases."³⁹ It also reported that after FinTRAC has made a determination that there are reasonable grounds to disclose information, then the information is released to appropriate authorities.

The report concluded that there are weaknesses in Canadian legislation – partially caused by the patchwork of privacy laws and loopholes in reporting requirements.⁴⁰ For example, there is a

³⁶ Nardi, Christopher, "CRA claiming \$4.4B from Canadian companies and individuals suspected of tax evasion"

³⁷ Ted Gallivan is the assistant commissioner of international, large business, and investigations branch at the Canada Revenue Agency

³⁸ Nardi, Christopher, "CRA claiming \$4.4B from Canadian companies and individuals suspected of tax evasion"

³⁹ US Department of State, "2019 INCSR – Volume II: Money Laundering and Financial Crimes (as submitted to Congress), 28 March 2019

⁴⁰ Cooper, Sam, "U.S deems Canada 'major money laundering country' as gangs exploit weak law enforcement," *The National Post*, 2 April 2019.

mistaken belief that all transactions over \$10,000 are reported to FinTRAC. This is not the case, According to FinTRAC reporting requirements, the following transactions are reported:

- A transaction where there are reasonable grounds to suspect that the transaction is related to the commission or attempted commission of a money laundering or terrorist financing related act;
- An electronic funds transfer in or out of Canada in excess of \$10,000 or two or more transactions within a 24 hour period that total \$10,000 and are by the same entity;
- Cash transactions over \$10,000;
- Casino disbursement over \$10,000;

(source: <https://www.fintrac-canafe.gc.ca/reporting-declaration/rpt-eng>)

There were also concerns regarding the effectiveness of FinTRAC, Maureen Maloney identified the following⁴¹:

- The degree to which they (FinTRAC) are focused domestically
- Its core function (intelligence) is not more important than its supervisory/compliance function
- The level of poor understanding among the public and the reporting entities

⁴¹ Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

- The small number of cases pursued and the even smaller number of convictions that arise from information sharing

The success rates touted by the Agency are a far cry from what has been accomplished south of the border. Contrasted to the current enforcement regime in the United States, the IRS has been extremely effective in pursuing and obtaining convictions in money laundering cases. According to IRS statistics⁴², there were 3,351 money laundering investigations initiated. From the total investigations, there were 2,797 prosecutions recommended, of which 2,005 were convicted, with average prison times served of 66 months. It should also be noted that the average sentence has increased from 62 months in 2016 to 70 months in 2018. This represents a conviction rate of over 72% in the United States as opposed to 22% in Canada.

Referring to the investigation and conviction rates that the Agency announced previously, Senator Percy Downe said⁴³:

“The CRA always talks a good game, but when you look at the record, it’s not so much. When you look at what other countries have done: the number of people that have been charged, the number of people who have been convicted,

⁴² Internal Revenue Service, “IRS: Criminal Investigation Report 2018”

⁴³ Wright, Teresa, “Nearly 900 Canadians found in Panama Papers, but no charges have yet been laid”, *The Star*, 2 April 2019

the money that they actually recovered — what we hear from the Canada Revenue Agency is, well, they're still working on it.”

One of the common loopholes that can be exploited in Canada, ironically, include the capital gains rules which according to Finance Canada costs the federal government around \$15 billion a year. These rules also apply to the sale of real property.

Sgt Brandt Watkins of the Vancouver Police Department and vice-president of the High Technology Crime Investigation Association attributed eight factors to the rise in money laundering through real estate:

- Lack of government regulation
- Lack of real estate market regulation
- Improper banking practices
- Improper mortgage practices
- Lack of immigration law
- Lack of police investigation
- Lack of oversight
- Lack of government intervention

When asked if he felt that the Agency effectively used its investigative and enforcement abilities, he responded that the Agency never uses its powers with respect to money laundering activities against targets in organized crime. The factors cited were that the cases were either too complex, involved solicitor-client privilege, a lack of funding, or a general lack of interest. He also felt that

the existing tax regulations and reporting requirements as they currently exist in Canada are outdated, not followed, and not enforced by all stakeholders including real estate agents/brokers, lawyers, government, and law enforcement.

In a March 2019 report issued by the US Department of State, Canada was designated a “major money laundering country.”⁴⁴ The State Department defines a major money laundering country as one where that country’s financial institutions are engaged in currency transactions involving significant amounts of proceeds from international narcotics transactions.⁴⁵ Also listed on the report, although not mentioned in the media, is the United States.

What is disconcerting in the data is with the exception of a handful of European countries (see appendix 6), the remaining countries on the list are associated with corrupt government and crime. The laundering is completed from a “corrupt” country on the list, routed through North America (refer to the Vancouver Model) before being channeled back into another of the “corrupt” countries.

⁴⁴ Cooper, Sam, "U.S deems Canada 'major money laundering country' as gangs exploit weak law enforcement," *The National Post*, 2 April 2019.

⁴⁵ Ford, Mark, “US state department names major money laundering countries for 2018,” *Trade based financial crime news*, 3 April 2019

III – APPLICATION OF THE MONEY LAUNDERING CYCLE

OVERVIEW

Money laundering has historically been associated with cash. Businesses that would traditionally have sums of cash flow through as a front operation range from small restaurants (i.e. pizza shops), dry cleaners and small “mom-and-pop” convenience stores to larger operations such as night clubs, parlours, and underground lending operations. Prior to the advent of electronic banking and cryptocurrency as well as the implementation of AML rules, cash would have been virtually the only means to engage in money laundering.

As the regulatory network became more complex, the methods used also evolved. In 2004, the Law Society of British Columbia updated the regulations governing the profession that limited the amount of cash that could be accepted for certain transactions. However, cash is not always the form of currency used in money laundering activities. The development of tools on the online world such as cryptocurrencies and the increased use of electronic commerce have eliminated the need to “carry bags of cash”.⁴⁶

The total value of laundered money on a global scale has been estimated to be between \$1 trillion and \$2 trillion (USD) annually.⁴⁷ This is in all likelihood the largest component of the underground

⁴⁶ Hoekstra, Gordon, “Anatomy of money laundering in B.C. real estate: 12 cases, \$1.7 billion, 20 countries and 30 banks”, *Vancouver Sun*, November 29, 2019

⁴⁷ Moreno, Hugo, “Follow the money: a more efficient way to catch laundered loot”, *Forbes Magazine*, 15 March 2017

economy as any criminal activity that involves cash, be it the drug trade or human trafficking, will require laundering as an end result.

The traditional money laundering cycle includes three distinct phases: placement, layering, and integration. T.J. van Koningsfeld⁴⁸ proposed that there is a potential fourth stage between layering and integration called “justification”. This stage creates the appearance of a legal origin of funds prior to using the funds, but will not be included in this analysis. The actual techniques employed in the cycle will be discussed in section V.

Real estate has several attributes that make it ideal for money laundering.⁴⁹ Other than the obvious reason that it provides a place to live, there are a number of items associated with real estate transactions in the purchase cycle that can make it difficult to trace the source of funds. These include the use of nominees, fake mortgages, real estate lawyers, and lawyers’ trust accounts.⁵⁰ The lack of transparency in Canadian ownership also bolsters the ability to use real estate. Ownership of Canadian companies is anonymous and allows the actual (or beneficial) owner to remain private.⁵¹ Joy Thomas, president and CEO of Chartered Professional Accountants of

⁴⁸ T.J. van Koningsfeld wrote an article entitled “Money Laundering – You don’t see it, until you understand it: rethinking the stages of the money laundering process to make enforcement more effective” – see *Research Handbook on Money Laundering* (Edward Elgar 2013)

⁴⁹ Schneider, Stephen, “Organized crime, money laundering, and the real estate market in Canada”, *Journal of Property Research*, November 3, 2004

⁵⁰ Schneider, Stephen, “Organized crime, money laundering, and the real estate market in Canada”, *Journal of Property Research*, November 3, 2004

⁵¹ Reynolds, Christopher, “Why criminals look to Canada to launder their money through real estate”, *The Financial Post*, May 10, 2019

Canada, said “approximately 70% of money laundering cases in Canada involve corporations as the legal structures.”⁵²

Maureen Maloney of the BC Expert Panel identified several reasons that real estate is an attractive vehicle for money laundering:⁵³

- It forms a large market with high-value assets and is easy to enter
- Security associated with real estate holdings
- Has a certainty of legal ownership
- Several tools available to launder funds including capital gains on sale, rental income, and debt repayments for mortgage financing
- Speculation is a normal activity and has the appearance of legitimacy
- Depending on the location, the property can be a “prestigious investment”
- Real assets are heterogeneous
- Can be an integral part of a criminal operation, making control of the property necessary

In Canada, the term “Vancouver Model”⁵⁴ is used to describe the methodology used in British Columbia – the flow of funds from Asia into North America. Essentially this involves the use of

⁵² Thomas, Joy, “Pandemic reinforces the need for corporate transparency to fight money laundering”, *The Globe and Mail*, 2 June 2020

⁵³ Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

⁵⁴ The term “Vancouver Model” was coined in 2017 by an Australian criminologist, John Langdale. He is an expert on transnational crime and financial crime at Macquarie University in Sydney Australia. The term came from an

funds earned through drug activities in China. With assistance from Chinese tourists and immigrants, the proceeds are then laundered through casinos or large asset purchases such as homes.

STAGE 1 – PLACEMENT

According to information compiled by the RCMP, the use of real estate was the fourth most frequent item for laundering money.⁵⁵ The fact that lawyers are often involved in real estate combined with the ability to hide behind the corporate veil tends to make this an attractive asset to convert funds. Lawyers are exempt from FinTRAC reporting requirements and therefore do not report any transactions. This lack of transparency and accountability led Peter German to conclude that “lawyers are the black hole of real estate and of money movement generally.”⁵⁶

While some other methods include lottery schemes⁵⁷ and the use of multiple cash deposits, real estate remains a popular method for these reasons. Lawyers are prohibited from receiving cash transactions over \$7,500 but there is no limit on non-cash transactions. Bitcoin is also proving to become a pioneering currency in the real estate market. In 2018, a Toronto area businessman listed

expression he used in a speech given at the University of British Columbia. (See appendix 7 for an overview of the model)

⁵⁵ Schneider, Stephen, “Organized crime, money laundering, and the real estate market in Canada”, *Journal of Property Research*, November 3, 2004

⁵⁶ German, Peter, “Dirty Money – Part 2” March 31, 2019

⁵⁷ Hoekstra, Gordon, “Anatomy of money laundering in B.C. real estate: 12 cases, \$1.7 billion, 20 countries and 30 banks”, *Vancouver Sun*, November 29, 2019

his Mississauga condominium for payment in bitcoin.⁵⁸ This has the potential to open the door to foreign buyers.⁵⁹ For example, for a buyer outside of Canada who lives in a country with currency controls, the use of bitcoin allows the buyer to convert the cash into bitcoin and transfer it out of the originating country. It can then be used to purchase an asset in Canada whereas the currency control laws would prevent the use of cash to do so. The issue with using bitcoin and other cryptocurrencies is that these funds would be held outside of a lawyer's trust account. Other issues include valuation for tax purposes due to the fluctuating nature of cryptocurrency.⁶⁰

This can be appealing for those involved in activities such as human trafficking, drug trade, and organized crime activities. An RCMP investigation in 1993 uncovered a drug operation that was clearing in excess of \$140 million, of which at least \$7 million was laundered through Vancouver real estate.⁶¹ Research conducted in British Columbia showed that cash initially made its way into the system by using cash to make mortgage or rent payments, as well as making cash payments to

⁵⁸ Nanowski, Natalie, "Toronto man will only sell his condo for Bitcoin and here's why", *CBC News*, 26 February 2018

⁵⁹ Ibid

⁶⁰ Dingman, Shane, "Ontario regulator probes cryptocurrency use in real estate", *The Globe and Mail*, 22 February 2018

⁶¹ Hoekstra, Gordon, "Anatomy of money laundering in B.C. real estate: 12 cases, \$1.7 billion, 20 countries and 30 banks", *Vancouver Sun*, November 29, 2019

contractors for custom-built homes or renovations.⁶² Using cryptocurrency would help in better concealing the true source of the funds.

The use of renovations in a newly-acquired home can also help commingle funds. For example, dirty cash could be used to purchase a \$500,000 home in a middle-class neighborhood. A common sight in Vancouver and Toronto are the “tear-downs” where a home is razed and rebuilt. Rather than using a large corporation to complete renovations, the owner turns to a smaller owner-operator and offers to pay cash.

The larger corporation would likely have controls in place to prevent the acceptance of cash jobs, but a smaller one-man operation could readily accept cash, pay labourers “under the table” and not report the extra income. This prevents a large spike in revenues that would be reported on the tax return and likely trigger a CRA audit in a subsequent year.

In summary, the “dirty funds” are used to complete the rebuild and renovation, and the house then resold at a substantial profit. The sale is reported by the launderer and the “clean funds” can be used to purchase another property for a similar scenario. The resultant capital gains paid are accepted as a cost of laundering.

For the outside observer, the purchase, rebuild, and subsequent resale of the house have all appearances of legitimacy. Maureen Maloney reported that the objective of money laundering is

⁶² Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

to make transactions look normal and legitimate.⁶³ The above scenario is a simplification but illustrates how easy it can be to use real estate and related industries as a vehicle to launder money.

STAGE 2 – LAYERING

Once the funds have been placed into the financial system, the next stage involves a number of different factors which have the end purpose of removing the funds, or distancing the funds, from the associated crime from which they were derived. Using various lawful processes and techniques, the involved parties can enter into a series of transactions that gradually erode the “dirty” aspect of the funds. Following the completion of the transactions, they will have funds that are not easily traced to criminal activity.

Given the relatively lax regulatory environment in Canada, layering the funds by using real estate can be a quick process with the ability to preserve ones’ anonymity. Where the legal environment falls short, the Canadian financial institutions become slightly more involved with anti-money laundering activities and internal controls for one good reason: “no one wants to be known as the bank that funded terrorism.”⁶⁴

⁶³ Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

⁶⁴ Moreno, Hugo, “Follow the money: a more efficient way to catch laundered loot”, *Forbes Magazine*, 15 March 2017

According to the Expert Panel on Money Laundering in British Columbia, the following techniques were listed as possible ways to layer funds⁶⁵:

- The use of cross-border transactions, particularly in tax haven jurisdictions with strict banking secrecy laws, or jurisdictions where gathering evidence can be difficult
- Using trusts and corporations to disguise true ownership (or beneficial ownership in tax terms)
- The use of false invoices to move money across international borders
- Borrowing funds in one jurisdiction for repayment in another
- Using nominees or “straw buyers” to give the appearance of a change in ownership
- Aborted transactions where funds are placed in a trust account (such as a lawyer’s trust account) for a pending transaction and then returning the funds following the cancellation of the pending transaction

David German identified a number of methods utilized in British Columbia⁶⁶; it is likely that these methods are also used in other parts of Canada. As no comparable comprehensive study has been done for jurisdictions other than British Columbia, one can assume that similar situations exist given the Canadian regulatory environment.

⁶⁵ Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

⁶⁶ German, Peter, “Dirty Money – Part 2” March 31, 2019

These methods however do not allow one to differentiate between legitimate transactions and those involving money laundering. There is no reporting mechanism in the system that would permit the reporting of these transactions to law enforcement. Unlike agencies in other countries, FinTRAC is a data-collection entity and does not have enforcement powers. Essentially, the collected data remains in archive until such time that a request is made for it.

STAGE 3 – INTEGRATION

Integration is the actual usage of the laundered funds. There is generally no risk of being questioned on the source of the funds as they have come from what appears to be legitimate sources. One way of receiving these funds for use by individuals (or corporations in some cases) is through the payroll, dividends, and management fees to employees, shareholders, and related companies. Other methods will include selling assets that have been built by a company, or through returns generated by rent and mortgage payments received by the laundering entity.

The problem confirmed by Peter German in his report is that the use of real estate has the appearance of a normal transaction.⁶⁷ This makes it difficult to determine the true nature of the funds without what could amount to significant investigative work. With the lack of transparency and reporting requirements, it is not surprising that these cases appear to have a low priority.

⁶⁷ German, Peter, “Dirty Money – Part 2” March 31, 2019

In his report, Mr. German also identified several common transactions that involve laundered money⁶⁸:

- The use of foreign capital with criminal origins for purchase of homes and condos at the high end of the market – this has contributed to the high number of vacant homes in the Vancouver area
- Speculation using foreign capital from Mainland China for the purpose of securing mortgages from Canadian financial institutions
- Laundering through underground bankers⁶⁹
- Operating a business through purchased property⁷⁰
- Purchasing and using SRO (Single Occupancy Rooms) hotels for laundering money through the receipt of rental payments and drug trafficking operations
- Ownership and financing of Hells Angels clubhouses
- Obtaining mortgages for real estate purchases and repaying the loans with funds from criminal activities⁷¹

⁶⁸ German, Peter, “Dirty Money – Part 2” March 31, 2019

⁶⁹ There was a case in 2017 in which MacEwan University was defrauded of \$11.8 million via an email phishing scam. A university employee transferred the funds to an account which was subsequently wired to Hong Kong – ultimately being used in real estate transactions. It is alleged that at least \$1 million was transferred back to Canada (The Board of Governors of Grant MacEwan University v Hoi Fu Enterprises Ltd, BCSC 179040)

⁷⁰ Examples include a retail property used as a brothel and an SRO hotel used for drug trafficking (see Peter German report)

⁷¹ Detecting money laundering through mortgages can be difficult as they involve regular payments and appear to be normal transactions

- Purchasing properties for rental purposes and accepting rent payments in cash which are commingled with legitimate sources of cash
- Construction and renovation activities
- “Flipping” properties to disguise income

It should also be noted that in some of the above scenarios, the rental revenues and capital gains would be reported to the Agency and assessed tax. This would add the illusion of legitimacy in that the entity reporting the transaction is both avoiding a charge of tax evasion and is able to say that the transaction was reported and taxed.

Australia has the same problem that Canada has concerning real estate and money laundering. In a 2015 report by AUSTRAC, the Australian counterpart to FinTRAC, the commission identified the same methods used in Canada, along with the same \$10,000 reporting limit for transactions.⁷²

The United States is a bit more advanced than Canada is with respect to money laundering and tax evasion. Title 18 § 1956 and IRM 9.5.5 define money laundering as tax evasion in progress. This is likely one reason why the United States has a higher conviction rate than in Canada.

Louis Ferrante, an author and former mafia associate, wrote that when the IRS had built their case against Al Capone and eventually arrested him, he offered to pay the government what he owed in

⁷² AUSTRAC, “Money laundering through real estate”, *Australian Government*, 2015

assessed taxes. He was sent to prison. According to Mr. Ferrante, following the imprisonment of Al Capone, the word spread through the mob to “give Uncle Sam his due”.⁷³

Gangster Leroy Barnes “ruled Harlem with an iron fist”, but was terrified of the IRS so he ensured that he filed \$250,000 in miscellaneous income each year to prevent the IRS from targeting him.⁷⁴

According to the Criminal Intelligence Service Canada, financial crime comprised 11% of criminal activity in Canada in 2011.⁷⁵ Organized crime also participated in this area through mortgage fraud. With the high real estate prices in the Toronto area and the larger job market, it isn't surprising to see more fraud committed in this region. With ever-increasing restrictions on mortgage qualification, some people are not able to obtain financing from traditional borrowers and instead turn to the private market. To compound the issue, a survey by Equifax⁷⁶ showed that 25% of millennials would knowingly provide a false statement on a mortgage application in order to obtain approval.

⁷³ Ferrante, Louis (2011), *Mob rules: what the mafia can teach the legitimate businessman*, Penguin Books

⁷⁴ Ibid

⁷⁵ "The state of organized crime: report of the standing committee on justice and human rights", March 2012

⁷⁶ Greene, Kim, "Ontario lawyers put on high alert for mortgage fraud", *Ontario Mortgage News*, 31 Jan 2020

In 2006 the OECD completed a survey of 18 countries and listed the following methods as the most common for committing fraud and laundering through real estate:⁷⁷

- Price manipulation
- Undeclared transactions
- Fictitious transactions
- False invoicing
- Using illegal workforce
- Layering transactions
- Using nominees and/or false identities
- Using short-lived companies
- Aggressive tax planning

IV – OWNERSHIP AND REGULATORY REQUIREMENTS

OWNERSHIP OF REAL ESTATE IN CANADA

Ownership of real estate in Canada is primarily administered at a provincial level, which can lead to disparities in the law across the country. Except for a few Federal laws which include *The Investment Canada Act* and *Competition Act*, each province governs how real estate may be owned and transacted.

⁷⁷ Report on Tax Fraud and Money Laundering Vulnerabilities Involving the Real Estate Sector”, *Organisation for Economic Co-operation and Development*, issued 2007

One example of disparity across the country includes the requirement for foreign entities to obtain a licence to own and operate real estate.⁷⁸ Only three provinces – Ontario, Quebec, and British Columbia – have this requirement. Another example is Prince Edward Island; the *Land Protection Act* will generally restrict the amount of land a non-resident of the province may own to five acres.⁷⁹ A third example restricts ownership of land by non-residents in Quebec, Saskatchewan, and Manitoba.⁸⁰

In general terms, property in Canada can be owned by individuals, or through companies, partnerships, and trusts. As indicated earlier, there are few restrictions on ownership.

GOVERNING TRANSACTIONS AND ASSOCIATED HOLES IN THE LEGISLATION

There are a number of governing statutes at both the federal and provincial levels. Each province has its own laws pertaining to transactions, with federal statutes such as the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (POCMLTF)*⁸¹. In addition, FinTRAC requires reporting of transactions in excess of \$10,000 regardless of form of tender.

⁷⁸ “The international comparative legal guide to: real estate 2018”, *Global Legal Group*

⁷⁹ Ibid

⁸⁰ Ibid

⁸¹ Objective of the Act reads in part “...to implement specific measures to detect and deter money laundering and the financing of terrorist activities to facilitate the investigation or prosecution of money laundering and terrorist financing offences, including establishing record keeping and client identification requirements for financial services providers and other persons that engage in businesses, professions or activities that are susceptible to being used for money

One of the contributing factors that may facilitate money laundering in Canada is that some sectors in Canada do not have an obligation to report such transactions. According to Peter German⁸² in his report *Dirty Money*, the Anti-Money Laundering rules in Canada place the highest onus on the regulated financial entities.⁸³ The majority of mortgages in Canada are held by the Big Six banks (see Appendix 4), with a total portfolio value of \$1.6 trillion. Of this amount, around 4% of the debt is held by private companies. What is ironic in Canada's lip service to AML, is the fact that these other lenders are exempt from the statutory AML regulations⁸⁴ and therefore have no requirement to report to FinTRAC. Further, FinTRAC has no mandate to conduct compliance reviews or even sanction them for non-compliance.⁸⁵

Contributing to the non-compliance issue is a circumstance unique to Canada. According to Christine Duhaime⁸⁶, Canada is unique "in that lawyers do not have to monitor or report suspicious transactions. That makes Canada more susceptible to being used for all types of financial crimes."⁸⁷ Part of this blame needs to be laid to rest at the door of the Supreme Court of Canada.

laundering, and the financing of terrorist activities, requiring the reporting of suspicious financial transactions and of cross-border movements of currency and monetary instruments..."

⁸² Peter German is a lawyer in British Columbia who authored the study "Dirty Money" for the British Columbia government. He is a former deputy commissioner of the RCMP and currently works in private practice.

⁸³ German, Peter, "Dirty Money – Part 2" March 31, 2019

⁸⁴ Ibid

⁸⁵ German, Peter, "Dirty Money – Part 2" March 31, 2019

⁸⁶ Christine Duhaime is a financial crime advisor and lawyer in Vancouver BC. She has lectured and written on topics pertaining to financial crimes for the past several years.

⁸⁷ Gordon, Julie and Dilts, Elizabeth, "Canada watchdog report: Lawyers pose money laundering risk"

In 2000 the federal government passed legislation that would have closed loopholes when it passed the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. In general, this law required the reporting of suspicious transactions as outlined in Section 7:

7 Subject to section 10.1, every person or entity referred to in section 5 shall, in accordance with the regulations, report to the Centre every financial transaction that occurs or that is attempted in the course of their activities and in respect of which there are reasonable grounds to suspect that:

(a) the transaction is related to the commission or the attempted commission of a money laundering offence; or

(b) the transaction is related to the commission or the attempted commission of a terrorist activity financing offence.

The legal profession did not agree with the provisions of the Act, and in true fashion, launched a challenge against the Act. In 2015, the Supreme Court struck down provisions of the Act as it pertained to lawyers on grounds that it violated lawyers' charter rights to be protected from unlawful search and seizure and the undue deprivation of their liberty.⁸⁸

⁸⁸ Canadian Press "Lawyers secure constitutional exemption from FinTRAC reporting rules"

According to the Court, “The regime authorizes sweeping law office searches which inherently risk breaching solicitor-client privilege...it does so in a criminal law setting and for criminal law purposes.”⁸⁹

Peter German summarized the consequences of this ruling in one sentence: “The gap left in Canada’s AML (Anti-Money Laundering) regime by the non-reporting of lawyers is akin to following a route on your car’s GPS, only to learn that satellite coverage ends halfway to your destination.”⁹⁰

This has created a vacuum in Canada’s AML efforts and consequently the associated weak link in real estate. Law Societies have created rules that restrict lawyers from accepting cash in excess of \$7,500 for transactions. Peter German noted however that it does not prevent them from receiving tens or hundreds of thousands of dollars in cash for other items such as bail money or for settling fees and expenses.⁹¹

The federal government wants to include lawyers in a redeveloped AML regime. The international standards established by the Financial Action Task Force⁹² in Recommendation 20 state in part

⁸⁹ Canada (Attorney General) v Federation of Law Societies of Canada, 2015 SCC 7

⁹⁰ German, Peter, “Dirty Money – Part 2”

⁹¹ Ibid

⁹² The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog. The inter-governmental body sets international standards that aim to prevent these illegal activities and the harm they cause to society. (www.fatf-gafi.org)

that lawyers should report suspicious transactions related to real estate⁹³ and the requirements extended to all other legal professionals and accountants as stated in Recommendation 23.

This puts Canada at odds with the rest of the world. According to the Federation of Law Societies of Canada, lawyers in Canada are currently covered by existing AML and terrorist-financing rules.⁹⁴ In reality it would appear that these rules are not working. Kim Marsh, the former head of the RCMP's International Organized Crime Investigation Unit, says that much of the money laundering in Canada has been set up with the help of Canadian lawyers.⁹⁵

This could be stemming from a serious misconception of money laundering amongst members of the legal profession. Money laundering involves currency in all forms of tender, but some think it only pertains to cash. For example, Herman Van Ommen, President of the Law Society of British Columbia in 2017, believes that “only transactions that involve physical cash qualify as money laundering...money laundering, to me, is taking illicit cash, putting it through some accounts so you can get clean money in a bank account.”⁹⁶

This level of understanding is what is compounding the problem. A FinTRAC paper looked at 40 money laundering cases over a 14-year period. Of the 40 cases that were examined, the number of

⁹³ Financial Action Task Force, “International standards on combatting money laundering and the financing of terrorism & proliferation”

⁹⁴ Shutt, Sandra, “Tracking dirty money”, *Canadian Lawyer*, 5 June 2017

⁹⁵ *Ibid*

⁹⁶ Shutt, Sandra, “Tracking dirty money”, *Canadian Lawyer*, 5 June 2017

lawyers who were charged with money laundering represented 15% of these cases, and represented 25% of professional money laundering service providers⁹⁷ named in the cases. This is clearly an issue. By ruling that a section of the POCMLTF violated the Charter and infringed on solicitor privilege, and then subsequently striking it down, the Supreme Court opened the door for an unregulated profession and an exemption from FinTRAC reporting.

Addressing Canada's compliance with recommendations issued by the Financial Action Task Force (FATF) regarding the monitoring of transactions and performing due diligence, a report issued in 2016 reported that "the exclusion of these professions is not in line with the standard and raises serious concerns."⁹⁸ Following the Supreme Court decision, Parliament began to address the hole left by the ruling, but as of yet, no new standards have been issued.

In 2017 new standards issued by the International Ethics Standard Board for Accountants (IESBA) addressed new compliance standards for professional accountants.⁹⁹ The new standards established a framework for obligations associated with knowledge of an illegal act or potential illegal act. The NOCLAR rules (Non-Compliance with Laws and Regulations) are summarized as follows: Any illegal or potentially illegal acts that involve employees, management, and third-

⁹⁷ Gordon, Julie and Dilts, Elizabeth, "Canada watchdog report: Lawyers pose money laundering risk", *Reuters*, 7 April 2016

⁹⁸ Financial Action Task Force, "Anti-money laundering and counter-terrorist financing measures: Canada", September 2016

⁹⁹ Noncompliance with Laws and Regulations", PwC, July 2018

parties under control of the entity. PwC identified the following examples of laws and regulations that NOCLAR would apply to:¹⁰⁰

- Fraud and corruption
- Money laundering, terrorist financing, and proceeds of crime
- Securities fraud
- Banking activities
- Data protection
- Tax laws
- Environmental issues and violations
- Public health and safety

The NOCLAR rules help in the regulatory environment, particularly in money laundering as it has imposed a duty of care on accountants worldwide to remain aware of any acts and/or warning flags. The accounting profession has more of an obligation to report than the legal profession does, and this is another area of concern. Accountants do not have a right similar to solicitor-client privilege and therefore are more at risk for failure to report than other professions would be.

In Canada, the Rules of Conduct for the provincial CPA Institutes include ‘duty of confidentiality’. An accountant engaged by a client is bound by the Rules to protect and maintain the confidentiality

¹⁰⁰ Noncompliance with Laws and Regulations”, PwC, July 2018

of client information except where required by law. Violation of the Code prior to 2017 could lead to professional conduct investigations for breaches; the adoption of the NOCLAR rules allow an accountant to set aside this duty and enable the reporting of illegal acts.¹⁰¹

OTHER ISSUES IN THE LEGISLATION SURROUNDING OWNERSHIP

Aside from the items identified above, there are other areas that fall outside of the scope of regulations and reporting requirements. Some of these factors include lack of ownership transparency and the ability to use lenders outside of Canada for mortgages.

Despite the oversight and regulations surrounding other professions in Canada, the same FATF report found the following items¹⁰²:

- Financial agencies and agents involved in transactions will sometimes only do a cursory review of information to determine if the buyer (on paper) is linked to a criminal or terrorist group
- Brokerage agents relied on their “gut feelings” to determine if something seemed suspicious
- Real estate agents said that they felt the risk of money-laundering low because they don’t handle cash-only deals

¹⁰¹ Hannaford, Gary, “New international ethics standard will have implications for all professional accountants”, *CPA Canada*, February 13, 2017

¹⁰² Financial Action Task Force, “Anti-money laundering and counter-terrorist financing measures: Canada”, September 2016

- The reliance on lawyers is problematic because of the Supreme Court decision

The German report assessed various properties in the hopes to develop a “scoring system” that would enable regulators to flag a property as a money laundering risk.¹⁰³ This scoring system combined the following factors:

- Opaque owner (legal entity, arrangement, or nominee)
- Opaque address (overseas address, PO box or law office)
- Unfinanced purchases
- Quickly discharged mortgages
- Mortgage with unregulated or overseas lenders
- Property is overvalued or an undervalued property has been flipped
- Property was part of a “buying spree”

The scoring system was tested by applying it to a list of 154 properties that were identified as suspicious. The list was compiled using data of properties that were known to have or currently have strongly suspected links to money laundering.¹⁰⁴

¹⁰³ German, Peter, “Dirty Money – Part 2” March 31, 2019

¹⁰⁴ Ibid

Using the scoring system, 38 properties received two or more points. The top three suspicious factors were:

<i>Indicator</i>	<i>% of properties</i>
<i>Opaque ownership</i>	14%
<i>Unfinanced or cash purchase</i>	8%
<i>Property was part of a buying spree</i>	4%

While the findings concluded that a scoring system may not be an effective method, German did comment that he could not be certain without using a larger sample size. However, the factors can be used to point out some weaknesses that need to be addressed in Canadian law.

Of the sample tested in the German study, 24% of the properties had a mortgage with either an unregulated lender (see appendix 3) or with an overseas lender. This differs somewhat from the Maloney report in that an estimate of between 3% and 12% of mortgages were from unregulated lenders¹⁰⁵. This can be attributed to a much larger sample population.

¹⁰⁵ Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

HOW OTHER COUNTRIES HANDLE REAL ESTATE OWNERSHIP

There has been talk for several years regarding the foreign ownership of real estate in Canada, but there has been little movement made on the subject. There is a distinction made for taxation purposes which determines applicable tax rates, reporting requirements etc., but no distinction made for ownership. The tracking of home ownership varies between provinces. In 2018 the BC government introduced a land registry that lists beneficial owners, not just a corporation name attached to the property.

Where other countries have been able to address foreign ownership rules, Canada in general has failed to do so. It is the lack of transparency (the “corporate veil”), the lax ownership laws and the ease of incorporation that have helped contribute to the money laundering problem in Canada, particularly as it relates to real estate.

The Expert Panel noted that the ability to disguise ownership of property makes it difficult to link to proceeds of crime¹⁰⁶. They concluded that by disclosing the true beneficial ownership it is possible to disrupt the money laundering process. More transparency can be made if a distinction is made between three entities:

- The legal owner of the property
- The legal person who exercises the rights of ownership

¹⁰⁶ Maloney, M., Somerville, T., Brigitte, U., “Expert panel on money laundering in BC real estate” *BC Government*

- The beneficial owner¹⁰⁷ of the property

Several countries around the world have legislation in place that range from prohibiting foreign ownership of property or restricts foreign ownership to certain types of real property or on restricting the purchase of land that a building is situated on. Others are in the process of looking at ownership rules. In 2018 New Zealand passed legislation banning foreigners from owning real estate in the country.

A few of these countries, with the restrictions in place, are highlighted below¹⁰⁸:

Table 2 - Summary of Foreign Ownership Rules in Selected Foreign Jurisdictions

<i>Country</i>	<i>Laws and restrictions on foreign ownership</i>
<i>Mexico</i>	Unable to buy property within the country’s “restricted zones” in the interior
<i>Switzerland</i>	The government has an annual quota on number of homes sold to foreign non-residents in the country with some regions in the country having additional restrictions

¹⁰⁷ FATF defines the beneficial owner as individuals who exercise ultimate control

¹⁰⁸ Hutchins, Aaron, “How the rest of the world limits foreign home buyers”, <https://www.macleans.ca/economy/economicanalysis/how-the-rest-of-the-world-limits-foreign-home-buyers>

Country *Laws and restrictions on foreign ownership*

<i>Guernsey</i>	Has a two-tier system: local market and open market. While foreigners can buy in a local market, only qualified residents can live in a local market area; the open market has a registry with 1,597 homes available for non-residents and currently no additional homes are being added to the list
<i>Malaysia</i>	There is a minimum selling price for foreign purchasers to prevent them from buying all the low- and mid-range priced properties which would otherwise shut out the local residents from being able to purchase these properties
<i>Thailand</i>	Foreigners can own a house, but not the land it sits on
<i>Australia</i>	Non-residents must generally buy new property or build on vacant land; a temporary resident can purchase an existing home but must sell it when the visa expires
<i>Philippines</i>	Foreigners can own a house, but not the land it sits on
<i>Singapore</i>	Imposes an 18% property sales tax on foreigners

Country *Laws and restrictions on foreign ownership*

<i>New Zealand</i>	Foreigners banned from purchasing property
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RESTRICTING OWNERSHIP AND ITS IMPACT ON MONEY LAUNDERING

The restriction of ownership does not always work in terms of preventing money laundering. The results from studies in British Columbia show that the process involved people already in Canada who do not own the real estate in the transaction. The process included lawyers, mortgage brokers, and private lenders – a full support system already in place for money laundering. While the restriction on ownership may reduce laundering levels, it will not necessarily eliminate them. Other avenues, such as construction and renovation, remain attractive for criminal activity.

Despite the restriction rules in Switzerland, it has been reported that a large number of properties are involved in money laundering schemes. Part of this can be attributed to the desirability of owning properties in the country, particularly in certain cities which adds an element of prestige.¹⁰⁹

¹⁰⁹ Allen, Matthew, “Squeezing laundered money out of Swiss property”, *swissinfo.ch*, 25 May 2017

Part of the reason can also relate to the secrecy laws surrounding banking transactions and ownership.¹¹⁰

According to the Swiss government, there is a “risk of abuse” in that deals can be finalized outside the scope of reporting laws by using foreign institutions or the use of cash. In 2011, the Swiss Union of Real Estate Professionals was able to file a parliamentary motion to address this compliance issue¹¹¹ by requiring all transactions to flow through an institution bound by the current AML reporting rules in the country. Meanwhile, the Swiss government maintains that “real estate is not systematically” used for money laundering.

V – ROLE OF THE FORENSIC ACCOUNTANT

THE IFA AND MONEY LAUNDERING INVESTIGATIONS

The role of a forensic accountant in money laundering investigations can be crucial. In order to build a case and support it at trial, there needs to be sufficient evidence gathered to support a conviction. This will involve researching and documenting any individuals or entities that are or have been involved in a particular case as well as determining the likely methods that were used. Following the investigation the IFA will most likely also serve as an expert witness during the trial.

¹¹⁰ Bradley, Simon, “Real estate moves to lower dirty money risk”, *Swissinfo.ch*, 16 September 2011

¹¹¹ Ibid

Paramount to any investigation is the preservation of documents and evidence. This forms the basis of any report prepared by the IFA. Any contamination, loss of custody, or other compromising events, including instances where independence or objectivity can be questioned, will directly impact the quality and acceptability of the original documentation. Any information relied upon as a result of the investigation will then become questionable and there will be an erosion of confidence in or even the disqualification of the report and/or the expert witness.

Where the IFA is able to make a significant contribution is in the documentation and investigation stages. In 2019 a massive raid was conducted in the Greater Toronto Area that targeted several mafia holdings, resulting in a number of arrests and confiscation of property.¹¹²

While the raid was not specifically targeting money laundering activities, the role that the forensic accountants played was highlighted. The use of documentation and paper-trails builds a strong case, whereas the reliance on witnesses can be challenging given the fear factor. In the GTA raid, Carl Mattinen of the Traditional Organized Crime Task Force with York Region Police said the following:

“A victim has to be able to testify and, to testify, there is a lot of fear. Forensic accounting is not afraid. Math is not afraid. Documentary evidence is not afraid.

¹¹² Thompson, Peter, “Following dirty money leads police to alleged Mafia clan north of Toronto living life of luxury”, *National Post*, 18 July 2019

We can tender that in court with no worry of recanting or fear from the community.”¹¹³

Given the interplay of various factors in money laundering, it is necessary to look at all phases of the money laundering cycle as one combined unit. For an IFA to effectively begin to assist in the investigation activities in the placement phase, it is necessary to obtain an understanding of the actual source of the funds being used. “Following the money” is the process where the IFA makes the strongest contribution.

The difficulty though is in tracking down and freezing the assets – a 2015 United Nations report from the UN Office on Drugs and Crimes estimated that only 1% of the global trade is seized and frozen¹¹⁴

Once the IFA has been given some direction by law enforcement as to the potential source of funds (for example from the drug trade) and suspected entities involved, the IFA is able to begin the documentation process.

This can entail reviewing transactions in detail. This goes beyond the methods used by a regular auditor who is primarily concerned with agreed values, agreed details, and substantiation. The IFA

¹¹³ Thompson, Peter, “Following dirty money leads police to alleged Mafia clan north of Toronto living life of luxury”, *National Post*, 18 July 2019

¹¹⁴ Moreno, Hugo, “Follow the money: a more efficient way to catch laundered loot”, *Forbes Magazine*, 15 March 2017

will assist in this area by reviewing in extreme detail the paper trail associated with transactions. This will include an examination of bank statements in order to document the associated cash flows.

Once the cash flows have been determined and the associated entities identified, the IFA can also provide a strong role in the following areas:

<i>Area of investigation</i>	<i>End result of investigative work performed</i>
<i>Documentation of the involved parties/entities</i>	The documentation of these parties can then be tied to the associated cash flows and other transactions. Having clear identification of individuals and corporations, along with the details of the transactions they were involved in or associated with, can support the Crown’s case should it proceed to trial,
<i>Tracking down the associated paperwork/contracts for the transactions</i>	The search process could also identify other third-party individuals who may not have been involved in the financial transaction, but provided professional advice or services during the course of the money laundering activities.
	This can include the identification of the following:

Area of investigation

End result of investigative work performed

	<ul style="list-style-type: none">• real estate agents or brokers who were involved in the actual sale,• the lawyer who facilitated the sale through the use of trust accounts, set up the corporation (if used), or is acting as the mailing address for the involved entities• other professionals who knowingly or unknowingly participated in the process by providing accounting or taxation advice• mortgage brokers who assisted in the obtaining of a mortgage
<p><i>Asset tracing / determination of beneficial ownership</i></p>	<p>In the structure of some real estate transactions, the involvement of nominee buyers is done by the true purchaser in order to avoid identification. The process will involve looking at a number of documents:</p> <ul style="list-style-type: none">• a search for any business affiliations or financial relationships between the entities under investigation and other third-party organizations

Area of investigation

End result of investigative work performed

<p><i>“Piercing” the corporate veil</i></p>	<ul style="list-style-type: none">• identification of obligations through a review of mortgage documents, tax liens, property tax statements, and other related items <p>In Canada, when a corporation is initially set up, the only disclosed information on the incorporation documents are the directors as most of the Company Acts in Canada (with the exception of British Columbia and the Yukon) require that a minimum of 25% of the company’s directors are Canadian resident. There is no requirement to publicly disclose the shareholders, with the only reporting on schedule 50 of a corporation tax return.</p> <p>A public search of the corporate records will only reveal the director information and the registered office. This is a starting point for the IFA as then the tax returns could be examined for the shareholders (assuming that they have been filed correctly). Working backward, the IFA can trace through a sometimes convoluted ownership structure and determine who the owners are.</p>
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TOOLS AVAILABLE TO THE FORENSIC ACCOUNTANT

The IFA has two tools that are used on virtually every engagement: calculators and computers. This forms the basis of any investigative work to be done as any conclusion and work performed will ultimately involve the analysis of numbers. There are other tools available which the IFA can draw upon or use.

Benford's Law¹¹⁵ was developed in 1938 and is, at its root, a generalization of the frequency of numbers appearing in a table or dataset. Using Benford's Law in developing number filters and sample size parameters can quickly help the IFA design an effective search tool and identify suspicious transactions for further inquiry.

It needs to be noted that the use of Benford's Law on its own does not highlight the suspicious transactions nor does it create the "open-and-shut-case" scenario. It will only direct the investigator to financial transactions of interest that could warrant further investigation. However, in cases of money laundering that involve real estate, there are often other transactions made for activities such as renovations. Once the involved entities have been identified, the algorithm could be applied to the banking records of the entities to potentially highlight fund transfers, payments, and deposits that fall outside the normal frequency expectation. As the reporting limit for FinTRAC is \$10,000 the involved parties could manipulate the payments made to fall below this

¹¹⁵ U.S physicist Frank Benford built on the published work of Canadian astronomer Simon Newcomb. The original publication showed that the number 1 appeared far more frequently than others. Benford built on the published research and developed the expected frequency of the appearance of a given number in a data set.

threshold. The likelihood of the transaction amounts being low is slim – most likely they will be at a higher value, but below the reporting limit.

David Stewart of Deloitte LLP said that “fraudsters are especially prone to detection by Benford’s law because they have an instinct to maximize the scheme.”¹¹⁶

The use of public databases is another excellent tool for the investigative work done by the IFA. Corporate databases are only the tip of what is available; other sources include social media postings. The amount of information that can be gleaned on an individual or company is more significant.

In 2018 staff at the Ottawa Citizen performed an experiment to determine the extent of personal data available on the Internet.¹¹⁷ With the permission of a senior editor who volunteered to have his online profile mined, the following results were compiled from public information:

- The total combined downloaded data was more than 1.66 Gb (the King James Version of the Bible is only 13.48 Mb)
- The data contained 10 years’ worth of status updates, tweets, Google searches, and photos
- Events the editor attended

¹¹⁶ Mann, Arshy, “Focus: Benford’s law a key weapon for detecting fraud”, *Law Times*, 28 July 2014

¹¹⁷ Pilienci, Vito, “Just how much of your personal data is actually online? We take a look”, *Ottawa Citizen*, 2 April 2018

- Advertisements clicked on
- A list of friends on Facebook, including those the editor unfriended and the date they were unfriended
- Listing of every address searched on Google
- A detailed listing of the editor's appointments and meetings stretching back to 2007

The use of social media searches can be a powerful tool for the IFA when combing through records searching for beneficial ownership or proof for use of property.

VI – RECOMMENDATIONS FOR IMPROVEMENT

Several weak areas in Canada need to be strengthened and in some cases, overhauled. With a lack of centralized oversight and harmonized regulations and laws across the country, it is difficult to enforce a consistent national standard. Further, the corporate ownership rules themselves contribute to the ability for money laundering to be done and may have a connection to the low conviction rates.

Another major issue is the ability of purchasers to utilize foreign lenders. These secondary lenders are not bound by reporting requirements to FinTRAC.

There are a number of improvements that can be made in Canada which, if implemented, should also conform with the recommendations in the FATF regulations. I am proposing the following recommendations along with their potential impact on money laundering activities in the country.

Recommendations

Reasoning

<p><u><i>Recommendation #1</i></u></p> <p><i>Increasing the capital gains inclusion rate on the disposition of real property, other than properties subject to the Principal Residence exemption, from 50% to 100%</i></p>	<p>The raising of the inclusion rate will be able to serve two factors:</p> <p>First, the elimination of the tax-free portion of gains on real property as outlined will have a cooling effect on some properties as well as impact the level of speculation in real estate. If the law is written properly, then Canadians with vacation properties will be exempt rather than burdened with the extra tax.</p> <p>Second, this will serve to make Canadian real estate less attractive to investors. With the tax doubled on investment property, this may or may not cause a reduction of money laundering activities using real estate.</p>
<p><u><i>Recommendation #2</i></u></p> <p><i>Full disclosure of ownership on tax filings</i></p>	<p>There is currently a reporting mechanism in place for Canadians who hold investment property outside of Canada with a value over \$100,000 with the requirement to report the holdings, the location of the holdings, and income earned.</p>

Recommendations

Reasoning

	<p>For properties held in Canada, the reporting on a personal income tax return only requires the taxpayer identification for filing purposes, along with the address of the property. This does not prevent the actual property owner from using a third party to report the property income. For income reported on a corporate tax return, there is no identification of the property that either generated the rental income nor is there a hard requirement to disclose the property details (rather it can be presented as a summary) that gave rise to the capital gains on disposition. By requiring full disclosure of beneficial ownership on an annual basis, this would enable the tracking of properties, the associated revenue streams, and allow for better information sharing amongst regulatory bodies.</p>
<p><u><i>Recommendation #3</i></u> <i>Corporate ownership to be made transparent</i></p>	<p>Under current reporting requirements, a corporation is required to disclose director information to the respective provincial ministry and to advise them of changes in directorship. This information is publicly available upon request.</p> <p>Shareholder information is disclosed on a corporate tax return to the Agency each year, but there does not appear to be any</p>

Recommendations

Reasoning

verification of ownership or if the information is correct. Ironically, this information is not publicly available except to the authorized representative(s) of a company.

When a new corporation is processed in Ontario, for instance, the required disclosure on the registration document is director information, not shareholder information.

The corporate veil for reporting does not require the disclosure of beneficial ownership of a corporation. For example, a foreign corporation can become the parent company of a Canadian subsidiary, with the only disclosure of ownership being the name of the foreign company – not the true beneficial owner.

All Company Acts across the country should be made uniform with the requirement that a minimum of 50% of the directors are Canadian resident. This will give the Agency and other authorities recourse against the corporation should future issues arise. With the current one director requirement (which

Recommendations

Reasoning

	<p>is not uniform) there is only recourse available against one party.</p>
<p><u><i>Recommendation #4</i></u> <i>More restrictions to be placed on non-residents owning a controlling interest in a Canadian corporation</i></p>	<p>By restricting the ownership of corporations by non-residents, this will place the corporation in Canadian jurisdiction and enable investigators and government agencies to more effectively inquire and enforce. It will also enable the Agency and related provincial tax authorities to recover taxes owing.</p>
<p><u><i>Recommendation #5</i></u> <i>Prevent non-residents from owning real property in Canada either personally or through the use of a</i></p>	<p>This is a two-part implementation. According to the German report, there are 3,127 residential properties in British Columbia¹¹⁸ which show the owners addresses in one of 87 high-risk jurisdictions. Nearly 68% of these are with addresses in either Hong Kong or China. More than \$4.22 billion of residential property in British Columbia is registered to individuals or entities located in high-risk jurisdictions.</p>

¹¹⁸ German, Peter, “Dirty Money – Part 2” March 31, 2019

Recommendations

Reasoning

corporation; and prohibit use of nominee buyers

The Vancouver Model in which funds from Asia from illegal activities flow into Canada and are used in high-end purchases relies in part on local individuals, some of whom act in the role of a nominee buyer.

By eliminating the ability of non-residents to purchase and own property in Canada, this would likely increase the use of nominee buyers. This is why a two-part implementation is required. Prohibiting the use of nominee buyers, along with prohibiting foreign ownership, would put a clamp on the Vancouver Model as well as remove the ability to park laundered cash by non-residents in Canadian real estate. This would then free up resources to investigate Canadians who are involved in these activities.

Recommendations

Reasoning

	<p>Using the laws and restrictions enacted in Switzerland as a model¹¹⁹ for changes to Canadian legislation would provide an excellent foundation from which to build a Canadian solution.</p>
<p><u><i>Recommendation #6</i></u> <i>Ban the purchase of Canadian real property with the aid of foreign mortgage lenders</i></p>	<p>One method used to launder foreign cash is to set up a mortgage advanced from a related foreign corporation. The funds are channeled into Canada for the purchase of real estate and then repaid using legitimate cash earned from rental. The funds are not reported as foreign lenders are exempt from reporting to FinTRAC.</p> <p>By prohibiting the use of lenders outside of Canada, this would bring these large transactions into a reportable sphere. The German report indicated that in British Columbia alone, there were over 92,000 properties owned through corporate entities</p>

¹¹⁹ Switzerland prohibits foreign ownership of residential property regardless of structure of ownership: either direct ownership or as a controlling stake in a separate entity.

Recommendations

Reasoning

	<p>(7% of total properties)¹²⁰. There is no indication of how many were owned through foreign-controlled corporations.</p> <p>The report also indicated that of the 154 properties tested in the ‘suspicious properties’ sample, 24% of the mortgages were with unregulated or overseas lenders.¹²¹</p> <p>Extrapolating this to the current ownership in British Columbia, it would indicate that there could potentially be over 22,000 mortgages advanced either by unregulated or foreign lenders.</p>
<p><u><i>Recommendation #7</i></u></p> <p><i>Restrict the use of cryptocurrency as a form of</i></p>	<p>Cryptocurrencies are an unregulated market, and currently, any use of cryptocurrencies are not reported to FinTRAC. If an entity wishes to use cryptocurrency, then the currency exchange must be made at a regulated financial institution</p>

¹²⁰ German, Peter, “Dirty Money – Part 2” March 31, 2019

¹²¹ Ibid

Recommendations

Reasoning

tender in real estate transactions

(along with proper KYC protocols performed) and then the converted funds can be used in the transaction.

The FinTRAC reporting requirements should be expanded to include all transactions over \$10,000 which involve conversion from or to cryptocurrency either as a single transaction or a series of conversions.

VII – CONCLUSION

While tax evasion is not money laundering, money laundering should be treated as tax evasion in a process similar to what is defined in the United States. The actual act of money laundering will never go away – but the implementation of stronger measures in the following areas will help curb the use of real estate in Canada:

- overhaul of tax legislation
- overhaul of provincial and federal Companies Acts
- extend enforcement powers to FinTRAC
- bring all professions, including lawyers and real estate agents/brokers, under the FinTRAC reporting requirements

The only way to effectively address the issue is to bring all involved parties together into a national money laundering prevention program that is uniformly enforced regardless of provincial jurisdiction.

A number of the characteristics associated with corporate ownership in Canada, combined with tax regulations and a patchwork of real estate ownership rules across the country have all converged together to create the “perfect storm” of money laundering in Canada. Issues with investigation and enforcement continue to be weak in Canada, and there has been no clear leadership emerging that is either willing or has the delegated authority, to begin to create a national strategy to harmonize the standards.

It needs to start at the top – with the federal and provincial governments. They have the ability to increase corporate transparency and identify beneficial ownership¹²² which would create a foundation from which to build a national strategy.

Other standards would include tightening the FinTRAC reporting requirements, and ensuring that lawyers and others in the legal profession are brought under the reporting umbrella.

¹²² Thomas, Joy, “Pandemic reinforces the need for corporate transparency to fight money laundering”, *The Globe and Mail*, 2 June 2020

APPENDIX 1 – RESULTS OF AUDIT ACTIVITIES BY CRA

<i>Programs</i>	<i>Number of files completed</i>	<i>Audit assessments (including assessed penalties)</i>
<i>Income tax</i>	3,977	\$76.3 million
<i>GST/HST</i>	2,077	\$225.0 million
<i>GST/HST New Housing and New Residential Rental Property Rebates</i>	35,239	\$481.7 million
<i>TOTAL</i>	41,293	\$783.0 million

Table 3 - Results of audit activities in Ontario

<i>Programs</i>	<i>Number of files completed</i>	<i>Audit assessments (including assessed penalties)</i>
<i>Income tax</i>	2,346	\$436.1 million
<i>GST/HST</i>	1,838	\$189.9 million
<i>GST/HST New Housing and New Residential Rental Property Rebates</i>	4,846	\$21.8 million
<i>TOTAL</i>	9,030	\$647.8 million

Table 4 - Results of audit activities in British Columbia

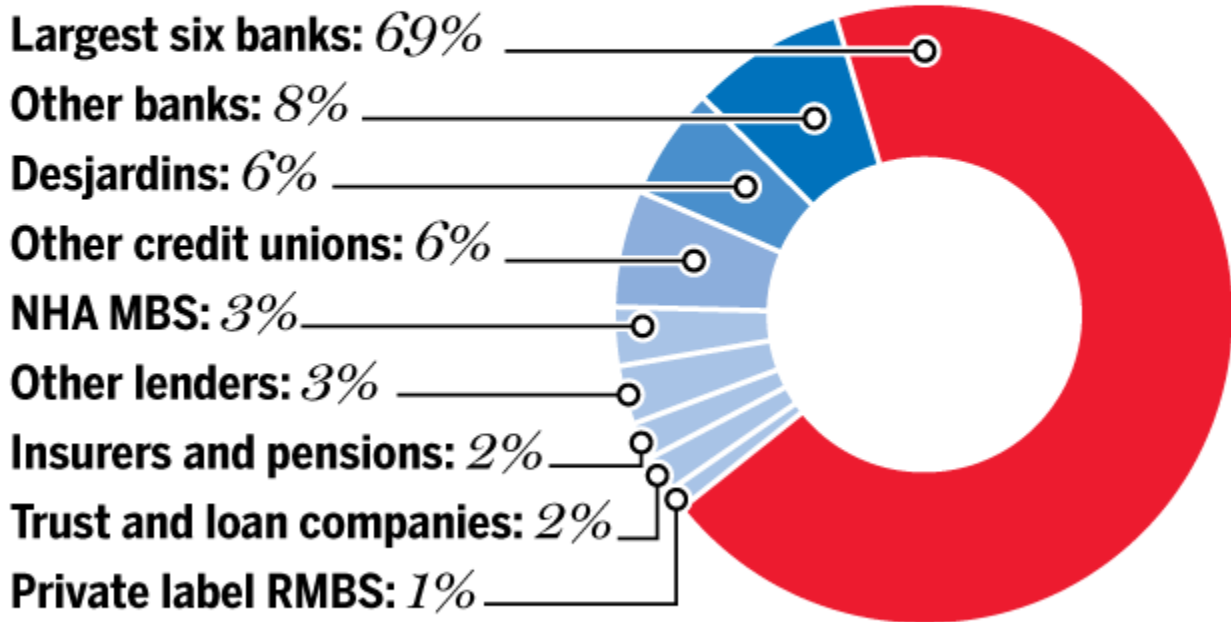
APPENDIX 2 – SUMMARY OF MONEY LAUNDERING CHARGES AND CONVICTION RATES BY PROVINCE

<i>Province</i>	<i>Years included</i>	<i>Total cases or charges</i>	<i>Cases with guilty verdict</i>	<i>Conviction rate</i>
<i>British Columbia</i>	2002 – 2018	50	10	20.00%
<i>Alberta</i>	2002 – 2018	422	24	5.69%
<i>Ontario</i>	2006 – 2017	3,133	773	24.67%
<i>PEI</i>	2002 – 2018	3	2	66.67%
<i>Nova Scotia</i>	2005 – 2018	63	13	20.63%
<i>TOTAL</i>		3,671	822	22.39%

Table 5 - Money laundering cases and conviction rates

WHO HOLDS CANADA'S MORTGAGE DEBT?

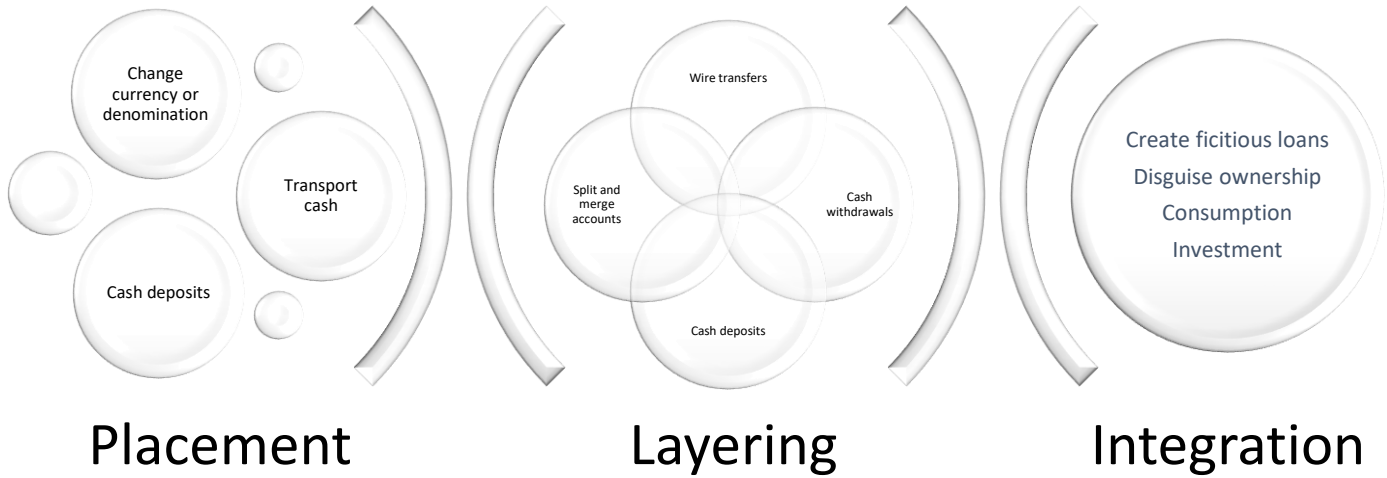
PRINCIPAL HOLDERS OF \$1.6 TRILLION DOLLARS IN OUTSTANDING MORTGAGE DEBT



SOURCES: MOODY'S INVESTORS SERVICE, STATISTICS CANADA, OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS, COMPANY FINANCIALS

NATIONAL POST

APPENDIX 4 – OVERVIEW OF THE MONEY LAUNDERING CYCLE



6 Source OECD Money Laundering Awareness Handbook for Tax Examiners and Tax Auditors (2009)

APPENDIX 5 – SUMMARY OF COMMON MONEY LAUNDERING METHODS

<i>Scheme</i>	<i>AUS</i>	<i>CAN</i>	<i>DNK</i>	<i>IRL</i>	<i>MEX</i>	<i>NLD</i>	<i>NOR</i>	<i>PRT</i>	<i>SWE</i>	<i>GBR</i>	<i>USA</i>
<i>Price manipulation</i>	X	X	X	X	X	X		X		X	X
<i>Undeclared transactions</i>	X	X		X	X		X	X			
<i>Fictitious transactions</i>		X						X			
<i>False invoicing</i>	X				X		X	X			
<i>Illegal workforce</i>							X				
<i>Layering</i>		X		X		X					
<i>Nominees / false identities</i>		X	X	X	X	X	X		X	X	X
<i>Short lived companies</i>					X		X				
<i>Aggressive tax planning</i>	X				X						

Table 7 Common Methods and Schemes (source: OECD Report 2007)

APPENDIX 6 – LIST OF MAJOR MONEY LAUNDERING COUNTRIES (2018)

<i>Geographic location</i>	<i>Country</i>
<i>Americas</i>	Canada, the United States, Argentina, Belize, Bolivia, Brazil, Colombia, Ecuador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Venezuela,
<i>Caribbean</i>	Antigua and Barbuda, Aruba, Bahamas, Barbados, British Virgin Islands, Cayman Islands, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, St Maarten, Trinidad, Tobago
<i>Africa</i>	Algeria, Benin, Cabo Verde, Ghana, Kenya, Liberia, Morocco, Mozambique, Nigeria, Senegal, Tanzania
<i>Europe</i>	Belgium, Bosnia and Herzegovina, Cyprus, Italy, Netherlands, Serbia, Spain, Turkey and United Kingdom
<i>Former Soviet Union</i>	Albania, Armenia, Azerbaijan, Georgia, Kazakhstan, Russia, Tajikistan, Ukraine, Uzbekistan
<i>Middle East</i>	Afghanistan, Iran, United Arab Emirates
<i>Asia</i>	China, Hong Kong, India, Indonesia, Laos, Macau, Malaysia, Pakistan, Philippines, Thailand, Vietnam

Table 8 - Countries with money laundering activities 2018 (source: US Department of State)

APPENDIX 7 – OVERVIEW OF THE VANCOUVER MODEL

Chinese underground banks	North American drug networks	Facilitation of capital flight
<ul style="list-style-type: none">• Form the heart of Chinese illegal activity• Money laundered from Vancouver into/out of China and to other locations such as Colombia or Mexico	<ul style="list-style-type: none">• Supplied by Chinese or Latin American gangs	<ul style="list-style-type: none">• High rollers use BC casinos, Chinese junket operators, and BC real estate

Table 9 - The Vancouver Model (source: Impact of transnational crime on Australia: intelligence perspectives", Prof John Longdale, Macquarie University

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