

## Money Laundering - the Form of Tax Evasion

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### Abstract

*Dirty money - a notion how innovative, so unclear. In principle, they are used by criminal organizations, or by other subjects, as a way of earning income and non-payment of taxes. It is difficult to trace the dirty money on the grounds that they take different forms and the destructive force of the dirty money circuit is the act called money laundering.*

*Money laundering includes methods and procedures that make it possible to obtain money or other assets from the illegal activity and conceal, disguise their origin, or give a seemingly legal aspect to their source. The act in question becomes one of the most widespread types of economic crimes, both nationally and internationally.*

*Dirty money destroys honest business, corrupt state institutions, is an environment favorable to the development of corruption and organized crime, thus endangering the entire economic system of the state.*

**Key words:** tax evasion, money laundering, public property

**J.E.L. classification:** H26

### 1. Introduction

The 20th century was characterized by a multitude of structural changes in the world economy. These changes have been influenced or driven by huge technological advances in the fields of telecommunications and information. Since the end of the 20th century and the beginning of the 21st century, globalization has become a word of the day, making it the most interconnected state at the beginning of the era of trade and information, basically transforming the world into one city.

Money laundering is not a new activity, the tendency to hide the illicit origin of sums and to give them an apparent legality and implicitly honesty and respectability to the owners of these sums, has old origins. It may be recalled in this context that the merchants and moneymen of the Middle Ages who, in order to conceal the interest received for the loans they assigned, in the conditions in which the Catholic Church had forbidden the treasure, appealed to a wide range of financial tricks, which largely correspond to today recycling techniques (Mrejeru, Andreiu, Petre, Safta and Safta, 2000).

Soon, dirty money sources, as well as the possibility of recycling, have expanded, and so important revenue coming mainly from underground economy activities is infiltrated through various methods in the real economy (Bran, 1995). Money laundering has been defined as a process where funds obtained through or generated by criminal activity are transferred or disguised to conceal the link between the offense committed and the funds obtained (Daianu and Vrânceanu, 2002).

Criminals are always looking for new ways of laundering illicitly, deliberately attempting to corrupt bankers or freelancers by corrupting the trust of the population in the financial market, which creates levers for the development of new forms of fraud (Dabu and Borza, 2007). By laundering money, criminals are trying to get rich immediately, illegal, most often defrauding the state.

## **2. Theoretical background**

The French economist Jean-Claude shows in his paper Tax fraud: If there is really talk of fraud, it is the same measure of legal or legitimate fraud, illegal fraud, international evasion, legal evasion, illegal evasion, tax havens or refugees, the abuse of the right to flee to the tax, the freedom to choose the least taxed way or the fiscal underestimation, fraud in the law or the underground economy.

Tax evasion is the avoidance of taxing a larger or smaller portion of taxable material. As a phenomenon, tax evasion is occurring both nationally and internationally. However, it should not be forgotten that a sufficiently comprehensive definition of tax evasion has been given by Law no. 87/1994 on combating tax evasion, a law which is currently repealed by Law no. 241/2005 on the prevention and combating of tax evasion. According to art. 1 of the Law no. 87/1994, tax evasion is the "avoidance by all means, in whole or in part, of the payment of taxes and other amounts due to the state social insurance budget and special extrabudgetary funds by Romanian or foreign natural or legal persons" (Dauphin, 1999).

I believe that, no matter how this phenomenon is defined, tax evasion is, ultimately, a failure by the taxpayer to carry out tax obligations in bad faith. As far as tax evasion offenses are concerned, they include the crimes incriminated as such in the criminal law.

Tax evasion is one of the complex economic and social phenomena of utmost importance that today's states face and whose undesirable consequences seek to limit them as much as eradication is virtually impossible. The state must systematically and efficiently deal with the prevention and limitation of the phenomenon of tax evasion. State through public powers can also incite tax evasion, pursuing mainly two purposes: a "positive" goal argued by the desire to stimulate capital formation and a "negative" goal reflected in supporting groups of interests, often of type mafia, with all the consequences (Dragomir, 2004).

The issue of money laundering has been tackled in an organized manner in the content of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which was adopted on 20 December 1988 in Vienna, in the context of raising awareness of the international community to combat drug trafficking (Rühl and Daianu, 1999). The Parties to this Convention, being aware that illicit trafficking is a source of considerable financial gain, enabling transnational criminal organizations to penetrate and corrupt state structures, legitimate commercial and financial activities, and society at all levels, have taken the first steps to prevent drug-recycling actions from the drug trade (Drosu-Şaguna, 2001).

## **3. Protection measures against money laundering**

The most effective solution to international money laundering is first and foremost international cooperation and control systems and unitary regulations within each country. International money laundering is based on the exploitation, through subtle financial operators, of the differences between the financial and banking regulations of countries around the world (Popa and Cucu, 2009).

International money laundering has a significant adverse effect on the world economy by: damaging the efficient operations of national economies, slowing the financial market corruption and reducing public confidence in the international financial system, increasing the risks and stability of the system, which ultimately leads to a reduction in the pace of world economic growth.

To counteract the phenomenon, several measures were taken:

- United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, adopted on 20 December 1988 in Vienna. It stipulates: the confiscation of property acquired as a result of offenses, the extradition of perpetrators of drug trafficking

offenses, mutual legal assistance by the countries concerned, the intensification of forms of cooperation between states;

- The Council of Europe Convention on Laundering, Search, Retention and Confiscation of the Proceeds from Crime, opened for signature on 8 November 1990 in Strasbourg;
- Council Directive of the European Community on the use of the financial system for the purpose of money laundering no. 91/308 / EEC, adopted in Luxembourg on 10 June 1991; this directive is the source of inspiration for anti-money laundering laws which have been adopted by almost all States, whether they are members of the European Community or are in accession procedures;
- The Financial Action Task Force on Money Laundering (FATF) is an intergovernmental body that develops and promotes anti-money laundering policies; it is currently comprised of 26 countries (financially significant countries in Europe, North America and Asia) and 2 international bodies;
- EGMOND Group (the first meeting of the group in 1955 at EGMOND - Aremberg Palace in Brussels, attended by 24 states and 8 international organizations); the group currently has 48 members and its purpose is international cooperation between national anti-money laundering national agencies (money-laundering information exchange between group members on the basis of memorandums of understanding (bilateral or multilateral ).

#### **4. Combating fraud and tax evasion, Commission contribution to the European Council meeting**

A coordinated approach at EU level can strengthen our collective capacity to combat tax evasion and tax evasion and promote high standards of global tax governance (Nicolae, 2006).

**a. Serious action is needed to combat tax fraud and tax evasion: supporting budgetary consolidation efforts and ensuring the correctness of tax systems.** Fraud and tax evasion limits the ability of Member States to collect revenue and to implement their economic policy. According to estimates, tens of billions of euros, often amounting to undeclared and unjustified amounts, are still in offshore jurisdictions, reducing national tax revenues. The implementation of decisive actions aimed at minimizing fraud and tax evasion could generate additional billions of euro in public budgets across Europe.

Fraud and tax evasion is also a challenge in terms of fairness and fairness. Fairness is an essential condition for the necessary economic reforms to be socially and politically acceptable. Tax burden should be distributed more uniformly by ensuring that everyone, regardless of whether they are less qualified, multinationals benefiting from the single market or wealthy people in offshore jurisdictions, contributes to public finances by payment of a fair contribution. Fairness and equity also means creating better and fairer taxation systems.

The EU has long been a solid policy for good governance in the tax area. The underlying principles of the EU system are transparency, automatic exchange of information and fair tax competition. The EU can capitalize on the experience gained over several years: the automatic exchange of information is the 2005 EU standard for savings income.

Several important measures have already been taken and Member States should make better use of available tools. It is now a priority for Member States to make the necessary improvements to their national systems and to make full use of the European Toolbox and to implement the agreed measures in a sound and coordinated way.

**b. Action at national level.** Member States can increase their tax and tax revenues through systematic action designed to reduce the underground economy, combat tax evasion and ensure greater efficiency in tax administrations.

**c. Action at EU level .** The EU has developed a comprehensive set of tools to improve the capacity of Member States to combat tax fraud and tax evasion. This set includes EU legislation (on improving transparency, information sharing and administrative cooperation), coordinated actions recommended to Member States (eg those targeting aggressive tax planning and tax havens) and country-specific recommendations as part of the European Semester. Through the Fiscalis 2020 program, the EU will also provide financial support for cooperation between national tax authorities.

*d. Measures to promote good global tax governance.* The EU should also take a leading role in promoting good tax governance and, in particular, the automatic exchange of information on a global scale. The Commission is leading international efforts to combat fraud and tax evasion. Future meetings will provide important opportunities to make progress at international level in the fight against tax evasion, evasion and money laundering. Building on the EU's mechanisms, a strong and coordinated position of the European Union within the OECD can help ensure the transformation of automatic information exchange into the new global standard in the field.

## **5. The hermetic phase taken by the criminal groups regarding the recycling of funds in Romania**

It is characteristic of ethnic and professional groups, since 1990, the most representative groups that acted in this phase are known in a terminology promoted by the media as:

The Arab Mafia has been very quick in the territory of illegal business, developing criminal activities carried out prior to 1990 (clandestine trade, drug trafficking, fake currency placement). In Romania a genuine community of Arab citizens (Syrian, Iraqi, Egyptian, Iranian, etc.) who control drug trafficking, smuggling cigarettes and alcohol, trafficking in luxury stolen cars, prostitution and false currency placement have been established. An appreciable number of them are married to Romanians, they have attended higher education institutions, they know the customs and the reality in Romania. The Arab Mafia is a real economic force, has a strong connection with power structures, is infiltrated into bodies with financial and customs control. The wealth that the Arab mafia holds in Romania is considerable (real estate, businesses, restaurants, commercial spaces, transportation, nightclubs, hotels, land and agricultural farms).

The Gypsy Mafia, represented by groups of people from 3 to 4 gypsy families, led by an authoritative leader, profited on the series of thefts of public and private property, robberies, scams, illegal trafficking in foreign currency and precious metals, automobiles, prostitution and pimping, begging, the sale of children for illegal smuggling by foreign nationals, real estate business, shackling, drug trafficking, the theft and the sale of works of art, blackmail, threats, levying of protection fees, violence in some countries, the capitalization of goods and stolen property in other countries (Germany, France, Austria, Poland).

True mafia clans, these groups have delineated their spheres of domination and business, often resorting to acts of great violence and intimidation even at the law enforcement.

The financial product obtained from the offenses is invested by the leaders of these groups in the purchase or construction of luxury buildings, cars, jewelry, currency, works of art, land, commercial spaces, etc.

The Turkish mafia is represented by extremely rigorous groups, present on the Romanian territory immediately after December 1989. They have initiated and implemented large-scale smuggling operations with food and industrial products (cigarettes, coffee, citrus, cosmetics, fruit), trafficking in precious metals and drugs. Other groups have specialized in recruiting women from Romania to whom they have promised to be employed in bars, casinos, restaurants, etc. but who were actually forced to prostitute in Istanbul, Ankara or Antalya, being then exported to the prostitution market in Cyprus and Greece. Turkish mafia has financial strength in Romania, specializing in money laundering resulting from drug trafficking and smuggling.

Chinese Mafia is a special species in the Romanian business crime scene for the fact that the acting groups have a strong code of conduct marked by the traditions and customs specific to the yellow race. Practically impenetrable, with rules of conduct hard to understand by the Romanians, the Chinese mafia has started discrete, but of great amplitude business, consisting of smuggling goods specific to their country. It is possible to speak with certainty about the existence of a Chinese community in Romania, which has come to light through numerous violent disputes between groups. For non-payment of the protection fee and non-payment of financial obligations, leaders of some groups carrying out illegal activities in Bucharest were liquidated in a typical Chinese manner.

The Ukrainian and Moldavian Mafia acted on the territory of Romania, specializing in Racket actions, trafficking in prostitutes, arms smuggling, explosives and radioactive substances, the theft and the sale of luxury cars, drug trafficking, alcohol smuggling and cigarettes. The leaders of these

groups, who came from former wartime fighters in Afghanistan and former troops from security troops, massively invested in Romania by buying real estate, land and commercial space.

## 6. Examples from the Romanian or other experience

### ✚ **Romanian Fleece - margarine, football and bloomers**

Casino Bastion in Timisoara, owned by Paul Cornel Todor and Adrian Mircea Peptan, opened the gaming rooms in a historic monument building: Theresia Bastion. A year ago Timisoara City Hall obtained nearly 10 million euros, of which half were PHARE funds for the rehabilitation of the building. Casino Bastione, who owns the casino license, refused to leave the building, although everything around it turned into a construction site. The edilies were about to lose funding, because they have been delaying the start of the work.

Currently, the City Hall is dealing with Casino Bastion in 17 cases and has proposed to the owners of the casino company to give up the lawsuits and to pay the rent up to date and the penalties. Instead, Casino Bastion would have received the contract extension after the works.

The troc was refused, and at the end of last year when the lease expired, Todor and Peptan moved their gaming halls to a new location within the Milenium 2000 Hotel in Timisoara.

### ✚ **Bingo Casinos**

Casino Valoro from Continental Hotel in Timisoara and Arad operates on the licenses of Valoro Aridor SRL and Vision Gambling SRL, respectively. The Timisoara casino was canceled in November 2008 following a decision by the Commission to authorize gambling.

Radu Chifa and Petru Rus, the owners of these casinos, started their bingo business in Bistrita, Bingo Metropolis quickly reaching one of the most famous gambling halls. Businesses exploded when the Super Bingo Pro TV show opened at a major post.

In fact, they were the promoters and inventors of the bingo system in Romania. The director of this business was for three years Marius Cristian Iuraşcu, PD member, candidate for the Chamber of Deputies at the last elections.

### ✚ **Margarine Casino**

Royal Casino is hosted by an ugly block of flats in the center of Craiova. Following the analysis of the most crimes, Stefan Ilinca, who is related to his ally George Ilinca, is called the margarine king and former shareholder of the University Football Club. The study shows that George Ilinca has lost large amounts of gambling and football, all of the shares of the Marshall Company Top Way.

That's why he decided to make his own casino, where he would lose his money. Tudorica Siclitaru, also a shareholder of the Royal Casino, has business with Adrian Mititelu and Dinel Staicu controversial. All the characters who play in the Royal Casino business have or have been linked to the Football Club of Craiova University, being in turn financiers.

Casino Royal is also known for the local underworld who is attending it, but also because he has had problems with the Finance about five years ago. Also, Fiscal inspectors found that tokens at the cash tables were not made on special-purpose documents. They escaped cheaply.

### ✚ **Gold Casino**

Advanced Gaming has one shareholder and holds two licenses. Operates the Gold Casino from the Opera Plaza Hotel in Cluj and the other in Targu Mures. Their screening is a Nicolae Feraru, operating casinos through the offshore Mirage Entertainment Corp of Panama. Feraru is still patronizing a real estate firm in Cluj, which has negligible profits.

### ✚ **Turkish branch: from Asia and Africa to South America**

The most important Turkish player on the casino market is Sudi Ozkan. Named the king of casinos in Turkey, Sudki Ozkan started his business with a single game room in Istanbul where he was a manager. He then bought that casino and the hotel that hosted it, calling him Princess.

At present, nobody knows what is the real size of Ozkan's business. It is known that its wealth exceeds one billion dollars, it owns hotels and casinos in over 11 countries, it has its own island in the Caribbean and a private plane. In 1998, after banning gambling in Turkey, where Sudi Ozkan owned the chain of Princess hotels and casinos, the Turkish businessman reorientated his investments in Bulgaria, Romania and the Caribbean. It then expanded into South America, Africa and Asia - Kyrgyzstan.

Ozkan, who aims to add business to Albania and Macedonia, resides in Philipsburg, the capital of Saint Maarten Island, in the Netherlands Antilles. On the island he bought a hotel and opened a casino for which, by contributing to the election campaign of the local president, received the license.

In Romania, South Ozkan is hosting three casinos in the center of Bucharest: Havana Princess Casino, King's Casino and Princess Planet, working on the licenses of Miorița Com, La Perla and Princess Planet Com.

This is also the most important casino group in Bucharest. Besides, Ozkan also owns currency exchange offices, a restaurant and a financial intermediation firm. Miorița Com, which is a shareholder in all Ozkan's other firms, has in the past also had problems with the Tax because it did not pay its taxes to the state. In fact, his antecedents are older.

#### **✚ Ozkan's student**

In 1998, the Turkish press raises a serious question mark over the business legitimacy of Ozkan. Then the Turkish businessman was accused of tax evasion and money laundering, and his property in Turkey was seized. Turkish Finance Ministry specialists have discovered that Ozkan has transferred a total of \$ 680 million from Turkey to Switzerland through a daughter's bank account.

The 2,000-page report by financiers reveals that Ozkan has transferred this money from unregistered account profits from 18 casinos. The money arrived in Switzerland to his daughter, Venus and her Italian husband, Palmerino Colamarino, who is spinning in Romania in the same branch with her father-in-law. Fortuna Leisure SRL is licensed for the casino at the Rin Grand Hotel in Bucharest. The rest of the companies handle bets, electronic games and bars.

The latest scandal involving Sudi Ozkan's name was held in May 2015 in Panama, where he opened a casino in the Four Points Hotel. He was accused by the Association for the Administration of Gambling (Asociación de Administradores de Juegos de Azar - Asaja) of being guilty of tax evasion, money laundering and smuggling.

Ozkan defended himself by accusing the Panama Security Council of not making any connection with him and the criminal activities he is accused of, and that he invested in Panama \$ 50 million in real estate.

To be credible, he also waved a document issued by the Turkish authorities, who absolved him of any blame. At the same time, another scandal broke out.

The Guyana press accuses that behind the purchase of Buddy's International Hotel in Georgetown there is actually a money laundering. Ozkan had bought the hotel with the intention of opening a casino when legislation would allow it, but also to engage in oil and mining business. Rose International operates Casino Mirage, located in the center of Bucharest, within the Ambassador Hotel.

The owners are two Turks, Metin Sengul and Tulay Sengul, the last one being brought to Romania long ago to take care of Ozkan's business.

## **5. Conclusions**

From the analysis we can draw the following conclusions:

- The money laundering risk is very high due to the fact that the Internet used in these clubs offers easy and almost universal access, eliminates face-to-face contact and is extremely fast and efficient in removing borders
- The most effective solution to international money laundering is primarily international cooperation and control systems and unitary regulations within each country
- Combating fraud and tax evasion requires action at national, Union and global level
- The European Commission is ready to provide specific support and technical assistance to any Member State that needs it to strengthen its tax system against tax evasion and improve tax collection
- The phenomenon of money laundering has intensified since 1989 due to the unprecedented intensification of financial-banking activities
- The need to combat this crime stems from the fact that money laundering is a phenomenon that leads to a deterioration of the overall economic and financial system due to the generation of inflationary effects, discouragement and the removal of honest investors

- There are many groups formed on ethnic criteria, which form a circuit of crimes
- In Romania, casinos amount to more than 100 million euros a year in documents
- Radu Chifa and Petru Rus, the owners of some remarkable casinos in Timișoara and Arad, were the promoters and inventors of the bingo TV system in Romania.
- The most important Turkish player in the casino market is Sudi Ozkan, who is starting to be a mere manager of a gambling club in Istanbul and later to be one of the richest brides, his wealth exceeding one million dollars
- Dirty money destroys honest business, thus endangering the entire economic system of the state.

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