Tianjin Daxue Xuebao (Ziran Kexue yu Gongcheng Jishu Ban)/
Journal of Tianjin University Science and Technology
ISSN (Online):0493-2137
E-Publication: Online Open Access
Vol: 58 Issue: 12:2025
DOI: 10.5281/zenodo.17959710

CRIMINAL PROCEDURAL MECHANISMS IN COMBATING THE LEGALIZATION OF PROPERTY OBTAINED THROUGH CRIMINAL MEANS AND THE FINANCING OF TERRORISM: COMPARATIVE INSIGHTS FROM AZERBAIJAN AND TURKEY

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Abstract

Taxation serves as the cornerstone of public finance, enabling the state to collect monetary resources from individuals to fund essential public expenditures. In contrast, auditing denotes a systematic, impartial process of evidence gathering and evaluation to investigate claims related to economic activities. Within this framework, tax audits encompass a comprehensive set of procedures aimed at understanding and verifying the accuracy of taxpayer information and transactions subject to tax regulations. Beyond core compliance objectives, tax audits strive to curb the informal economy, promote social justice and equality in taxation, and achieve other critical societal goals. This paper delves into the intricate and consequential relationship between taxation., illicit money transactions and the funneling of funds to support terrorist activities within the framework of Azerbaijan and Europe. While taxation serves as the government's primary mechanism for generating revenue to finance public services and infrastructure, tax evasion, the unlawful act of avoiding required tax payments on income or assets, undermines these efforts and creates vulnerabilities. The study seeks to elucidate the complex interaction of these three domains within the framework of Azerbaijan's tax law, while also situating the analysis within the relevant European legal instruments to enable a comprehensive comparative assessment.

Keywords: Money Laundering, Tax Evasion, Terrorist Financing, Taxation, Anti-money Laundering, Criminal Law, European Legal Regulations.

1. INTRODUCTION

The state relies on taxation as its foremost fiscal instrument, using it to consolidate and expand its revenue capacity. The fundamental purpose of taxation rests in generating the resources necessary for the delivery of public goods and services, which are indispensable to societal functioning. Over time, welfare driven objectives have become deeply integrated into tax legislation, reflecting the broader role of fiscal policy in promoting social stability and equitable development. In recent decades, the accelerating pace of globalization has compelled countries to undertake significant restructuring of their tax systems in order to remain aligned with shifting economic conditions. Reform efforts have increasingly emphasized the principles of equity, administrative efficiency, and broadening of the tax base, while also addressing pressures arising from international

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tax competition and cross border financial mobility. These global dynamics have made tax policy reform an ongoing and multifaceted priority for most nations.

Azerbaijan's post-Soviet transition following its independence in 1991 marked a profound shift from centralized socialist planning to a market driven economic structure, a transition that introduced both opportunities and systemic challenges. After 2020, the country experienced renewed economic momentum, a trend reinforced by geopolitical developments and the aftermath of its success in the Karabakh conflict. This resurgence has intensified the need for a robust, adaptive, and transparent fiscal system capable of supporting long term national development. Across the developing world, tax systems remain in a state of continuous evolution, shaped by changes in international relations, technological progress, and shifting regulatory landscapes. These factors have contributed to growing difficulties in managing tax gaps, combating avoidance and evasion, and maintaining fiscal stability in increasingly complex economic environments.

Given the historical, cultural, and strategic proximity between Azerbaijan and Turkey, a comparative examination of their tax regimes holds considerable relevance. Such an analysis offers valuable insight into how both countries design their fiscal frameworks, enforce tax compliance, and respond to shared economic challenges, particularly as their bilateral cooperation continues to deepen across multiple sectors.

2. DECIPHERING INTERCONNECTEDNESS: TAXATION, TAX EVASION, MONEY LAUNDERING, AND FINANCING TERRORISM WITHIN REGULATORY, FISCAL, AND SECURITY FRAMEWORKS

Money laundering is the process of disguising the illegal origin of funds acquired through criminal transactions such as drug trafficking, corruption, fraud, and organized crime, among others. The objective of money laundering is to conceal the true source of the funds, making them appear legitimate and integrating them into the financial system. Money laundering involves a series of complex transactions, such as placement, layering, and integration, and it poses a significant challenge for law enforcement agencies and financial institutions worldwide. The activity of money laundering is illegal and is a grave concern to the probity of the financial infrastructure and the rule of law.

One of the best examples of this situation is the maritime sector. Free ports and flags of convenience often open the door to tax evasion and money laundering. This not only reduces government tax revenues but also creates serious problems in maritime law and international trade law.[1] This is precisely why the European Union is attempting to tighten control over free ports through the 2015 Anti-Money Laundering Directive (AML Directive) and similar regulations.

1.1 Azerbaijan’s Approach

AML/CTF rests on preventive and punitive pillars to protect the financial system and security. In Azerbaijan this dual architecture is constructed along the axes of the Criminal Code (Cinayət Məcəlləsi, CM) and the Criminal Procedure Code (Cinayət Prosessual Məcəlləsi, CPM). CM Art. 214-1 defines the financing of terrorism as an autonomous

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offence, punishing the collection or provision of funds for terrorist purposes regardless of their source (Azerbaijan Criminal Code Art 214-1). CM Art. 99-1 authorises *xüsusi müsadirə* (special confiscation) of proceeds of crime and property allocated for the financing of terrorism. In particular, CM Art. 99-1.1.4 provides that property used for, or allocated to, the financing of terrorism like instrumentalities and proceeds is to be taken by the state through forfeiture. Further, CM Art. 316-2 criminalises tipping-off, prohibiting disclosure of suspicious transaction reports to customers or third parties and thereby safeguarding the confidentiality of AML/CTF investigations in line with CETS 198 Art. 7(2)(d). [2]

In addition, CM Arts. 12.3, 75.5 and 80.4 articulate universal jurisdiction, non-applicability of limitation periods, and ineligibility for amnesties with respect to certain serious crimes, signalling a strict stance against impunity. For example, CM Art. 12.3 allows Azerbaijani courts to exercise universal jurisdiction over foreigners who commit crimes such as crimes against peace and humanity or terrorism abroad. Similarly, these serious crimes are not subject to limitation and are excluded from general amnesties.

At the Council of Europe level, the AML/CTF regime rests on two cornerstone conventions. The 1990 Strasbourg Convention (ETS 141) focuses primarily on tracing, seizure, and confiscation[3] of proceeds of crime and on the architecture of mutual legal assistance. The 2005 Warsaw Convention (CETS 198) adds the preventive regime FIU-to-FIU cooperation, STRs, and postponement powers together with removal of the bank secrecy barrier and broadened confiscation tools[4]. The Warsaw Convention is notable as the first international instrument to extend beyond money laundering to explicitly cover terrorist financing, and to articulate an integrated approach that spans both prevention and repression. The teleology is shared: to interrupt criminal proceeds and terrorist financial streams at the earliest possible stage, thereby operationalizing the principle that “crime must not pay”.

What follows is a doctrinal analysis mapping parallels and divergences between Azerbaijan’s CM/CPM-based AML/CTF regime and the two Council of Europe conventions (ETS 141 and CETS 198), from conceptual definitions through to implementation.

CETS 198 (Warsaw Convention) adopts an expansive conceptual framework in the area of seizure and confiscation. It defines “proceeds,” “property,” “instrumentalities,” and “value” in light of the doctrine of traceable value[5]. “Proceeds” encompass any economic advantage obtained, directly or indirectly, from offences; “property” includes tangible or intangible, movable or immovable property and the rights therein. The breadth of these definitions is intended to ensure that even transformed or commingled criminal gains remain traceable and confiscable. Thus, the Convention requires Parties to cover property into which proceeds have been converted, mixed property (to the extent of the tainted share), and derivatives or benefits accruing from proceeds.[6] In short, even if criminal value assumes another form or is mixed into legitimate assets, value confiscation must remain available. This approach reflects the doctrine of tracing of value, which targets the value derived from crime rather than its original form.

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ETS 141 (Strasbourg Convention) similarly envisages tracing and confiscation of converted and commingled assets. Article 2 and related provisions encourage equivalent-value confiscation. As a cooperation-centred instrument, Strasbourg emphasises particularity and proportionality in execution: requests must avoid “fishing expeditions”, target specified proceeds, and remain measured[7].

Azerbaijan’s domestic law largely internalises this broad confiscation universe via CM Art. 99-1. Confiscable categories include instrumentalities, proceeds, assets acquired with or commingled with proceeds, and property allocated to the financing of terrorism[8]. For example, a car purchased with illicit funds is confiscable as transformed value, and mixed accounts may be seized pro rata[9] to the tainted share. The principal exception is the protection of good-faith third parties: under CM Art. 99-1/3, property acquired by a bona fide purchaser with reasonable diligence is shielded from confiscation. Doctrinally, Azerbaijan’s Criminal Code reflects the Warsaw Convention’s property theory, but its effective application depends on consistent tracing standards and evidentiary practices

CM Art. 214-1 treats the financing of terrorism as a distinct offence, punishing the collection or provision of funds for terrorist ends regardless of actual use.[10] The offence is an endangerment (not result-based) crime: criminal liability arises without requiring that the funds be used or attempted to be used in a terrorist act. The material element is the provision/collection of assets, and the mental element is the intent to allocate them to a terrorist act. The statute is agnostic as to the lawful or unlawful origin of the funds even legitimate income constitutes the offence if earmarked for terrorism.

With respect to mens rea, the offence typically involves dolus directus where the perpetrator knows and intends that the funds will support a terrorist organization or terrorist activity. In more opaque circumstances, for example where the perpetrator consciously accepts a serious risk that the recipient is linked to terrorism, dolus eventualis may be sufficient. Given the intrinsically clandestine nature of TF, direct evidence is rare; proof is therefore built through structured circumstantial inference drawing on (i) the profile of the recipient entity (e.g., designation on international sanctions lists), (ii) transaction patterns (smurfing; fragmentation into small tranches; atypical routing), and (iii) communications metadata and network ties evidencing functional alignment with terror purposes. Properly calibrated, such indicia operate as rebuttable evidential indicators, not as reverse burdens, and must be assessed against the ordinary criminal standard.

CETS 198 squarely covers TF and narrows political-offence and fiscal-offence exceptions. It applies double criminality flexibly, focusing on conduct-based equivalence rather than identical legal labels[11]. Azerbaijan’s CM Art. 214-1 thus aligns teleologically with CETS 198: it interdicts the financial stream ex ante, at the fundraising stage (eucrim.eu). Procedurally, early detection and rapid intervention are consistent with postponement mechanisms contemplated by the Warsaw Convention. CETS 198 also makes clear that property intended for terrorist use may be investigated and frozen even if lawfully sourced. [12]

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Confiscation targets offenders' property, but innocent third parties may be affected (e.g., bona fide purchasers; owners whose assets were misused). Over-broad confiscation undermines A1P1 (property) and may offend fair trial guarantees.

CM Art. 99-1/3 incorporates a knowledge standard ("knew or ought to have known"): bona fide acquirers are protected; those who ignore red flags (e.g., grossly undervalued purchases) are not. CETS 198 and ETS 141 stress notice and remedies for third parties in recognising/enforcing foreign confiscations (hrlibrary.umn.edu; hrlibrary.umn.edu) and allow refusal on proportionality or de minimis grounds (CETS 198 Art. 28).

ECtHR case law, such as B.K.M. Lojistik v. Slovenia (2017), stresses proportionality in third-party confiscations, noting that automatic, non-adversarial seizures risk violating Articles 6 and A1P1.[13]

Azerbaijan's CPM Art. 443 facilitates immediate judicial scrutiny, allowing affected persons (e.g., companies) to raise proportionality concerns quickly (e.g., salary payments, operating expenses), and courts to tailor freezes (e.g., partial blocking). Parallel administrative-tax and criminal proceedings may also raise ne bis in idem concerns; following A and B v. Norway (2016), coordinated dual tracks with complementary aims and proportionate overall impact can be compatible with the Convention.

CETS 198 resolves double criminality by focusing on conduct rather than legal labels (Art. 28). It also lists refusal grounds, including:

- ordre public,
- sovereignty or security,
- proportionality / de minimis,
- ne bis in idem,
- Lack of legal availability.

It narrows political and fiscal offence exceptions, especially for TF, and favors conditional execution over outright denial (Art. 30).

Domestically, Azerbaijan adopts a hard-line anti-impunity posture: universal jurisdiction (CM 12.3), non-applicability of limitation (CM 75.5), and restrictions on amnesty/parole (CM 80.4) (osce.org). While neither ETS 141 nor CETS 198 requires these, they do not conflict with them. Practical frictions may arise (e.g., time-barred offences abroad), but the stance is primarily policy-expressive.

It is observed that Azerbaijan's AML/CTF regime, built on the Criminal Code (CC) and Criminal Procedure Code (CPC), shows a remarkably high degree of alignment with the Council of Europe's CETS 198 and ETS 141 instruments:

i. The *endangerment offence* approach of CC Article 214-1 fully coincides with the teleology of the Warsaw Convention. Both frameworks aim to cut off the financial lifeline of terrorism before the act materialises. By explicitly including the financing

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of terrorism within its scope, CETS 198 excludes such conduct from political exceptions; similarly, Azerbaijan defines the financing of terrorism as an independent and serious offence.

ii. The confiscation scope of CC Article 99-1 mirrors the broad confiscation doctrine of CETS 198. Proceeds of crime, instrumentalities, transformed or intermingled assets, and property earmarked for terrorist financing are all subject to confiscation under Azerbaijani law. This reflects the Warsaw Convention's vision of covering even converted or mixed assets, thereby demonstrating that Azerbaijan meets international standards in terms of property theory.

iii. The confidentiality regime under CC Article 316-2 parallels the *tipping-off* prohibition of CETS 198. Azerbaijan criminally protects the secrecy of financial disclosures, while the Convention explicitly forbids banks from disclosing investigative information. Both systems regard confidentiality as an indispensable condition for the effective operation of preventive measures.

iv. The "urgent measure + rapid judicial review" model under CPC Articles 177/443 aligns with the provisional measure's architecture of CETS 198. Azerbaijan's 24/48-hour judicial control mechanism serves the Convention's objective of ensuring swift and effective cooperation. MONEYVAL reports have in fact noted the effectiveness of Azerbaijan's asset-freezing procedures.

v. In terms of international cooperation, Azerbaijan has both acceded to CETS 198 and incorporated its obligations domestically through bilateral treaties. Its flexible interpretation of double criminality and its exclusion of terrorism from the political offence exception illustrate conformity with international consensus. By even advancing further, such as recognising universal jurisdiction, Azerbaijan complements rather than contradicts the overall objective of combating impunity.

Despite this high level of harmony, certain aspects may require refinement in practice or show partial divergence from the perspective of the Convention:

i. Strengthening the FIU "postponement" mechanism: Although Azerbaijan's AML/CFT Law grants the FIU authority to suspend transactions for 72 hours, in practice most freezes are issued by courts. The FIU should be empowered, especially in response to foreign FIU requests, to immediately halt transactions and then refer the matter to the judiciary. Secondary legislation should clarify calculation and scope, proportionality standards, and the division of responsibilities with prosecutors, to fully meet Article 14 of CETS 198.

ii. Codifying the principle "banking secrecy is no ground for refusal": National law does not explicitly state that banking secrecy cannot be invoked to refuse cooperation, although CETS 198 Article 7(1) requires it. Incorporating this clause into the CPC would strengthen legal certainty and trust in international cooperation.

iii. Guidance on tracing–mixing–substitution: Establishing a common methodology among judges, prosecutors, auditors, and FIU analysts is crucial domestically and

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internationally. A joint guidance document e.g., on calculating mixed funds could standardize approaches and, drawing on Council of Europe and FATF guidance, enhance confiscation practices.

iv. Execution of foreign confiscation orders – third-party notification and remedies: Although Azerbaijani law grants third parties the right to contest confiscation, uncertainties remain in enforcing foreign orders. Practical guidance by the Ministry of Justice or Prosecutor General should clarify notification, deadlines for objections, and competent courts to streamline coordination and safeguard third-party rights.

2. AZERBAIJAN'S AML/CFT CONFISCATION REGIME IN LIGHT OF CETS 198 & ETS 141: GAPS AND RECOMMENDATIONS

Article 99-1 of Azerbaijan's Criminal Code on special confiscation does incorporate the concepts of proceeds transformation, commingling, and value confiscation.[14] However, the legal framework for non-conviction based (in rem) confiscation (e.g., confiscation when no criminal conviction is possible) and extended confiscation (confiscating assets beyond the direct proceeds, such as unexplained wealth) is limited and scattered. Unlike the broader powers envisioned in CETS 198, Azerbaijani law does not explicitly provide for confiscation in cases of fugitive or deceased suspects, nor does it include an "unexplained wealth" provision. In fact, Azerbaijani law currently has no explicit provision on extended confiscation and no mechanism for NCB confiscation outside of criminal or administrative proceedings.

The teleology of CETS 198 (Warsaw Convention) is to safeguard the "traceable value" of criminal proceeds and to ensure crime does not pay[15]. This means that even if illicit assets change form or ownership, the law should trace their value and remove them from circulation. International standards encourage having tools for confiscation even without a criminal conviction in certain cases – for instance, if the offender dies, flees, or enjoys immunity – as long as human rights guarantee (e.g., an equivalent fair trial standard) are in place. CETS 198 explicitly calls on Parties to cooperate in enforcing measures equivalent to confiscation that are not criminal sanctions (i.e., civil/NCB confiscation) ordered by judicial authorities. Extended confiscation (e.g., targeting *unexplained wealth*) often operates by shifting the burden to the convicted person to justify the lawful origin of additional assets. Such measures, while requiring careful balancing with property rights, are promoted by modern AML/CFT doctrine to target indirect proceeds and assets held by frontmen.

Let's consider a terrorism financing investigation spanning years. The primary suspect absconds, and by the time authorities move in, bank accounts are emptied and assets have been transferred to relatives' companies. Under the current Azerbaijani regime, confiscation is largely conviction-based and tied to the offender. If there is no conviction (because the suspect fled or died), there is no clear in rem avenue to confiscate these assets. Moreover, if the suspect had accumulated significant assets not obviously linked to a specific crime, the absence of an extended confiscation tool means those unexplained assets might remain untouched. In practice, this could result in criminal

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proceeds slipping away, undermining the goal of depriving terrorists or criminals of their funds.

Introduce a dedicated legal provision (or set of provisions) for NCB confiscation and extended confiscation. This could be an expansion of Article 99-1 or a new article in the CM. It should allow confiscation proceedings in rem where conviction is impossible (death, flight) under ETS 141/CETS 198. Clear standards of proof (e.g. requiring proof on a balance of probabilities that assets are criminal proceeds) and procedural safeguards equivalent to a fair trial must be codified to satisfy human rights. Additionally, incorporate extended confiscation[16]. This aligns with European practice of reversing the burden in confined circumstances. The law should spell out protections for bona fide third parties and innocent owners in such proceedings (see point 4 below), and provide for judicial oversight to prevent abuse. By explicitly providing for NCB and extended confiscation, Azerbaijan would remove safe havens for illicit wealth and meet the standards of CETS 198 Article 3(4) more fully – indeed; international experts have encouraged Azerbaijan to reconsider its declaration not to apply Article 3(4) (reversal of burden for confiscation).

Azerbaijan's Criminal Code now allows legal entities (hüquqî şəxslər) to be held criminally liable for a range of offenses including money laundering (CC Article 193-1, 194) and terrorist financing (CC Article 214-1) and *xüsusi müsadirə* (special confiscation) is applicable to both natural and legal persons. However, the regime for corporate liability in AML/CFT cases still shows gaps in terms of the sanctions available and their proportionality/effectiveness. International standards require that corporate sanctions be not just nominal, but truly effective, proportionate, and dissuasive. In Azerbaijan, no consolidated catalogue of corporate sanctions. While confiscation is one measure, it is unclear if courts can impose substantial fines, restrict a company's operations, revoke licenses, or mandate compliance improvements. The principles of proportionality and deterrence (ölçülülük/effektlilik və çəkindiricilik) demand a structured range of sanctions. Currently, the approach appears unclear and arguably less predictable than desired there is no single comprehensive list of penalties in the CM outlining what can be done to a company convicted of, say, financing terrorism, aside from confiscating assets and perhaps a fine under general provisions. This lack of clarity can weaken enforcement against corporate facilitators of ML/TF.

Both CETS 198 and FATF standards emphasize that corporate liability must be accompanied by sanctions that are severe enough to deter misconduct. FATF Rec. 35, for example, requires that legal persons committing money laundering or terrorist financing are subject to effective sanctions, which can be criminal or civil in nature (e.g. monetary penalties, banning from certain activities). The Warsaw Convention (CETS 198) Article 10 compels parties to ensure legal persons can be held liable and explicitly notes that liability of legal persons shall not exclude criminal proceedings against responsible individuals, and that such legal persons should face effective, proportionate and dissuasive sanctions, including monetary. Because corporate vehicles (e.g. shell companies, fintechs, charities) are often misused, only severe sanctions fines, dissolution, license revocation ensure deterrence. A clear catalogue also aids in

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predictability and fairness companies can gauge the consequences, and prosecutors have guidance on charges to seek.

For instance, a fintech payment company that knowingly or negligently fails to implement controls may be prosecuted under CC Article 214-1. If convicted, courts typically confiscate proceeds (e.g., transaction funds or earned fees), but what other penalties apply? Current law does not clearly provide proportionate fines, license withdrawal, or compliance mandates, allowing such companies to continue operations with limited disruption and thereby weakening deterrence. By contrast, in many jurisdictions convicted facilitators of terrorism financing face substantial fines, regulatory revocation, or court-supervised reforms.

In order to clarify and expand the sanctioning toolkit for legal persons in ML/TF cases, corporate liability should include effective sanctions such as fines, activity bans, license revocation, compliance programs, or dissolution, consistent with EU Directive 2018/1673 and CETS 198. Azerbaijan can draw on EU practices (e.g., EU Directive 2018/1673 on money laundering requires corporate sanctions including exclusion from entitlement to public benefits, judicial winding-up, etc.) and CETS 198 Article 10(4) which implicitly supports a range of sanctions[17]. By creating a structured catalogue, Azerbaijan would give judges clear guidance to tailor penalties to the circumstances ensuring a small company doesn't get a disproportionately large fine, but a large bank can be hit with a fine high enough to hurt (preventing it from being just "the cost of doing business"). This legal reform, coupled with guidance on applying corporate liability, would align the system with international standards and make AML/CFT enforcement more credible. In summary, corporate liability should not be a paper tiger the law must show teeth through well-defined sanction options.

Article 214-1 of the Criminal Code criminalizes the financing of terrorism. By design, this offense does not require that the funds be actually used to carry out a terrorist act, it is a formal/endangerment crime where the act of providing or collecting funds with knowledge or intent that they be used for terrorism suffices. This aligns with international conventions (e.g., the UN Terrorist Financing Convention) and is appropriate. However, in practice, proving the requisite intent (mens rea)[18] can be challenging. The law doesn't spell out how intent can be inferred, and courts/prosecutors rely on varied typologies and circumstantial evidence to establish that the accused knew or intended the funds to support terrorism. There is no consolidated guidance on what patterns or red flags can serve as prima facie evidence of terrorist financing intent. This leads to uneven application some cases might require very direct evidence (like communications explicitly referencing terrorism), while others rely on indirect links (such as donations to a front charity with known extremist connections). The absence of a clear evidentiary framework or "soft law" indicators means the interpretation of intent in Article 214-1 is somewhat fragmented and case-specific, which can make outcomes unpredictable.

Terrorist financing (TF) offenses are preventive in nature – the harm sought to be avoided is so great that the law intervenes at a preparatory stage. Consequently, direct evidence of intent (e.g., a confession "I wanted to fund terrorism") is rare; intent is usually inferred

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from circumstances. In doctirine, it is accepted that prosecutors can rely on "indicators" or typologies: patterns like transfers to accounts associated with designated persons, use of cash couriers or *hawala* networks common in terrorism cases, donations funnelled through charitable fronts, presence of the accused in extremist forums, etc. Many jurisdictions and international bodies (like FATF) have compiled red-flag indicators of TF to help identify and prove such cases.[19] The danger is that without a framework, different judges may set different thresholds – some may convict on relatively general evidence of association, while others may demand proof the funds reached a terrorist group. This inconsistency can hamper enforcement and raise fairness issues. A *rebuttable presumption*[20] approach is often advocated: if certain facts are present (e.g., routing funds through known terrorism hubs or sanctioned entities), a presumption of illicit intent arises which the defense can counter. This does not shift the ultimate burden unconstitutionally, but it guides courts in evaluating evidence. In short, doctrine supports using "soft" evidentiary standards[21] a catalogue of typical TF financing patterns to uniformly and fairly infer intent, without relieving the prosecution of its burden to prove the case beyond reasonable doubt.

For example, a small nonprofit in Azerbaijan might receive repeated donations under reporting thresholds and channel them to a foreign charity suspected of extremist ties. To infer intent, courts may consider indicators such as:

- The NGO's leadership profile (prior associations with extremists),
- A pattern of small but regular donations (structuring to avoid detection),
- The dubious background of the recipient charity,
- Public expressions of sympathy for extremist causes.

Some judges may find such indicators sufficient to infer intent, while others require direct proof that funds reached terrorists, illustrating the need for formal TF indicators under Article 214-1.

For instance, if there were an official list of TF indicators (like "regular donations to an organization linked to sanctioned entities" or "use of cash couriers to send funds to conflict zones"), the court could reference it and feel more confident that the evidence meets a standard accepted in doctrine and practice.

So, to develop a "rebuttable indicators" guide or directive for terrorist financing cases: A guidance document should list rebuttable TF indicators (e.g., use of sanctioned accounts, hawala transfers, or donations to dubious entities) and clarify that intent may be inferred from circumstances, including willful blindness. Training and standard evaluation tools should support consistent application. This approach will make prosecutions more consistent and resilient to appeal, while not infringing on the presumption of innocence (since the burden of proof remains on the state). Essentially, it operationalizes the idea that *intent can be shown through context*, which is indispensable in TF cases where the outcome (a terrorist act) thankfully often does not occur.

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Article 99-1(3) of the Criminal Code provides that property subject to confiscation can be taken from third parties only if the third party knew or should have known (bilirdi və ya bilməli idi) that the property was criminally obtained. This is a crucial safeguard for innocent third parties (bona fide purchasers, for example). However, beyond this substantive criterion, the procedures for protecting third-party rights are not comprehensively spelled out in legislation. Questions arise in practice about how third parties are notified of confiscation proceedings, what deadlines they have to assert their interest, and how their claims are adjudicated vis-à-vis state claims or victim compensation. Moreover, there is a lack of clarity on the order of priority if confiscated assets are claimed both to compensate victims and to be forfeited to the state – which comes first? The current regime's silence on these procedural steps has led to inconsistent approaches: in some cases, third parties only find out late and scramble to intervene; in others, courts have improvised solutions on whether a victim's restitution claim can trump state forfeiture. In short, the integration of third-party rights into the confiscation process is uneven, and there's no standardized mechanism ensuring efficiency and fairness.

The protection of innocent third parties is a well-established principle in both the Strasbourg Convention (ETS 141) and Warsaw Convention (CETS 198). Confiscation, while a powerful crime-fighting tool must not trample property rights of those not involved in the crime – this is grounded in Article 1 of Protocol No.1 of the ECHR (protection of property) and general fairness. The conventions and their explanatory reports stress the need for effective legal remedies for interested third parties. Key elements include: timely notification to any person who may have an interest in property that is frozen or subject to confiscation, the opportunity for them to be heard and present evidence (possibly even after a confiscation order, if they had no earlier chance), and an independent judicial determination of their claim. The doctrine also addresses priority of claims – many systems give precedence to victim compensation over state revenue, reflecting that confiscation's goal is partly to make victims whole. The concept of *bona fide* purchaser protection usually entails that if someone acquired the property legitimately without knowledge of its tainted origin, their rights should, in principle, prevail (or they should be compensated). Furthermore, proportionality is key: even a rightful confiscation must strike a fair balance, especially when third-party rights are involved. The Council of Europe instruments implicitly require a *written proportionality test* in decisions – the court should articulate why confiscation is necessary and fair in light of any third-party interests. Without clear written procedures, these safeguards may not be uniformly observed. Company X bought equipment at a public auction without knowledge of its tainted origin, making it a bona fide third party under CM Article 99-1(3). However, current law provides no clear mechanism to assert such rights, leaving issues of procedure and priority (e.g., between victims and bona fide owners) to ad hoc judicial decisions, which often produce inconsistent outcomes.

To solve and establish a clear procedural roadmap for third-party rights in confiscation cases, ideally in the Criminal Procedure Code (CPM) or a dedicated confiscation law.

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ISSN (Online):0493-2137
E-Publication: Online Open Access
Vol: 58 Issue: 12:2025
DOI: 10.5281/zenodo.17959710

This should include:

a. Notification requirements – whenever property is frozen or confiscation is sought, any person with a registered interest (e.g., appearing in a public registry for real estate or vehicles, or known through financial records for bank accounts) must be informed in writing.

b. Intervention process – a defined period (e.g., within 30 days of notification) for third parties to file a claim asserting their bona fides, with the burden on them to prove their lack of knowledge and legitimate ownership.

c. Hearing – the third party gets a hearing before the court that decides confiscation, with full rights to present evidence and be represented.

d. Decision and Appeal – the court's decision on the third-party claim should apply a clear *proportionality test* (weighing the public interest in confiscation against the individual's property right and innocence) and be reasoned in writing. Either side should have the ability to appeal that decision.

e. Priority rules – codify that when confiscated assets are to be distributed, victim restitution claims have priority over state treasury claims. This aligns with Article 25(2) of CETS 198, which encourages returning confiscated property for victim compensation or to rightful owners. In the above example, that would mean if a victim of the crime steps forward, they could claim the asset or its value *unless* it belongs to an innocent third party like Company X, in which case Company X's right prevails and the victim would be compensated from other assets or a state fund. Additionally, consider establishing a compensation scheme: if a bona fide third party's property is confiscated (perhaps because it's impossible to disentangle, or needed for victim compensation), the state could compensate them to uphold fairness. By instituting these procedures in law or guidelines, Azerbaijan would ensure a uniform practice that protects property rights as required by the ECHR and the European conventions, without unduly hampering the efficiency of confiscation. It's about finding the *just middle*: neither should criminals be able to easily park assets with friends/relatives to shield them (hence the "knew or should have known" clause), nor should unsuspecting good-faith owners be sacrificed in the zeal to confiscate.

The overarching aim of these measures is two-fold: (1) to cut off criminal and terrorist financial flows early and effectively, and (2) to protect individual rights from overreach. The *Warsaw Convention (CETS 198)* embodies the idea that we must "follow the money" relentlessly – not just the direct proceeds but any *traceable value* derived from crime so that crime does not pay.[22] At the same time, human rights law (ECHR) imbues the system with checks: property rights and fair trial guarantees mean those tools must be applied proportionately and with due process. Every recommendation above seeks to refine Azerbaijan's regime to better serve those purposes: depriving criminals and terrorists of resources, while ensuring the innocent or incidental are protected.

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Azerbaijan's legal backbone for combating money laundering and terrorist financing anchored in Criminal Code Articles 214-1 (terrorism financing), 99-1 (special confiscation), 316-2 (tipping-off) and corresponding Criminal Procedure provisions like 177 and 248 on seizures is fundamentally aligned with European and international standards in its goals. The country is running "towards the same goal" as Europe in cutting off illicit money. The 12 points discussed above are essentially fine-tuning adjustments to bring the Azerbaijani framework into full synchronization with the practical experience of CETS 198 and ETS These recommendations from codifying FIU postponement powers and clarifying the irrelevance of bank secrecy, to setting tracing standards, mandating periodic judicial reviews, establishing closed-material procedures, and coordinating tax with criminal penalties – are refinements, not wholesale changes. They aim to make the system more agile and forceful against financial crime, while also enhancing safeguards so that enforcement touches only the guilty and spares the innocent or unrelated.

By implementing these adjustments, Azerbaijan can significantly increase the effectiveness of its AML/CFT regime: criminals will find it harder to hide assets (knowing even death or flight won't save their loot from NCB confiscation), corporations will beef up compliance (facing real sanctions), investigators will move faster (with FIU freezes and better cooperation), and courts will handle cases more confidently (with clear guidelines on evidence and proportionality). At the same time, property rights and fair trial rights will be better protected – innocent third parties won't be caught in the crossfire without recourse, defendants will understand and be able to challenge the case against them (even in sensitive matters), and individuals won't be unduly punished twice for one act. In sum, these reforms make the system not just tougher, but also more just and human-centric.

Azerbaijan has demonstrated commitment to international standards (having largely aligned laws with UN conventions, FATF recommendations, etc.). The proposals here take that commitment to the next mile by addressing the nuanced gaps between having laws and fully realizing their intent in practice. With these improvements, Azerbaijan would have a confiscation and asset recovery regime that is both formidably effective against illicit finance and respectful of the rule of law, an outcome befitting a modern legal system at the heart of the global fight against financial crime.

2.1 Related Case Studies

One illustrative example of the interconnected relationship among taxation, money laundering, and the financing of terrorism is the widely discussed case of Hakan Atilla, a former deputy general manager at Halkbank, a major Turkish state-owned financial institution. The events surrounding this case demonstrate how illicit financial flows, tax evasion, and concealed income streams can operate together to support activities that threaten national and international security. When individuals or networks evade taxes and obscure the origins of their earnings, they generate pools of unregulated capital that can be redirected toward unlawful operations, including the financing of terrorism. In the Halkbank matter, the alleged laundering scheme was designed to circumvent United

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States sanctions targeting Iran, and the resulting transactions were linked to channels capable of supporting groups engaged in destabilizing activities.

The case further underscores the indispensable role of cross border cooperation in combating financial crimes. Investigators and legal authorities from the United States and Turkey collaborated extensively, sharing intelligence, evidence, and expert testimony. The trial not only drew international attention but also carried potential implications for diplomatic relations between the two countries, as well as for the broader global fight against money laundering, sanctions evasion, and terror financing.

A significant case within the Azerbaijani context is that of Javanshir Feyziyev, a member of the National Assembly, whose involvement in suspicious financial activities led to the seizure of funds across six bank accounts belonging to him and closes family members, including his spouse, child, and nephew. This incident heightened public and institutional concern regarding the permeability of financial systems to illicit transactions and emphasized the urgent need for stronger oversight, enhanced transparency, and improved enforcement mechanisms. Such cases reinforce the argument that effective governance requires unwavering adherence to the rule of law, judicial independence, and accountability at all levels of public office. Without these foundations, efforts to curb corruption and financial crime risk being undermined.

In conclusion, confronting the complex nexus among taxation, money laundering, and the financing of terrorism demands an integrated strategy that combines legal reform, institutional strengthening, and sustained international collaboration. Only through a coordinated framework that protects financial integrity and ensures consistent enforcement can states safeguard their national security architectures, promote public trust, and maintain resilient economic systems.

3. CONCLUSİON

This study confirms that domestic tax systems can be exploited to launder money and fund terrorism by masking illicit flows. In both Azerbaijan and Turkey, tax evasion and informal transactions undermine revenue and create concealment opportunities. Key case examples (e.g., schemes involving false invoices or sanctions-evading flows) illustrate how vulnerabilities in tax enforcement become conduits for terrorist financing.

On paper, both countries have largely aligned their AML/CFT regimes with European norms.

This mirrors the “value tracing” doctrine of ETS 141/CETS 198. Likewise, Azerbaijan criminalizes tipping-off and maintains urgent-freeze procedures with rapid judicial review, in line with CETS 198’s preventive model.

Despite this formal harmony, the analysis identified important legal and procedural lacunae, especially in Azerbaijan’s regime. Notably, Azerbaijan has no non-conviction (in rem) confiscation or extended/confiscation for unexplained wealth – gaps that CETS 198 and FATF urge states to fill. In practice, if a terrorism suspect dies, flees or hides assets

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abroad, current law provides no civil-law forfeiture remedy; illicit assets may simply slip outside justice. Similarly, the corporate liability regime remains underdeveloped: while companies can be prosecuted for ML/TF, Azerbaijani law offers no clear catalog of sanctions (beyond seizure of criminal proceeds). No statutory language authorizes substantial fines, operational bans, license revocations or compliance mandates. This omission reduces deterrence, as companies face only symbolic penalties. Another shortcoming is the absence of an explicit banking-secrecy waiver in Azerbaijani law.

Clarifying this would reinforce judicial cooperation. The Financial Intelligence Unit's fraud-prevention powers are also only partially utilized. Though the FIU may suspend transactions for up to 72 hours, freezes are usually sought through courts. In practice the FIU's short-term "postponement" tool is underused due to lack of implementing guidance.

Crucially, no formal guidelines exist on how to infer terrorist intent from financial data. Article 214-1 (financing of terrorism) requires intent, but prosecutors and courts lack a codified evidentiary framework.

The law does not specify any non-exhaustive "red flag" indicators or presumptions to guide proof. This gap can hinder convictions and allow ambiguous financing schemes to evade scrutiny. Finally, protections for innocent third parties remain inadequate. Azerbaijani law holds that only those who "knew or should have known" of taint lose property, but it provides no detailed procedure for third-party claims. In practice, the absence of clear rules leaves bona fide owners facing inconsistent treatment of their claims.

To address these gaps, the paper recommends targeted reforms. Legislation should authorize in rem and extended confiscation with human-rights safeguards, implementing CETS 198 principles. Corporate liability should include effective sanctions such as substantial fines, activity bans, license revocation, or dissolution, consistent with EU Directive 2018/1673 and CETS 198 Art. 10.

When considering tax sanctions in the European Union, the Court of Justice always prioritizes the principle of proportionality. According to the Court, states can impose penalties to protect tax revenues, but these penalties must be both deterrent and not excessive. For instance, a taxpayer in Poland was imposed a 20% VAT penalty.[23] The CJEU found this penalty disproportionate and annulled it. This was because, beyond preventing tax losses, the penalty was so severe that it unnecessarily harmed the taxpayer's rights. This decision demonstrates that the goal of tax law should not only be to impose harsh penalties but also to uphold fairness.

Banking laws should be amended to state categorically that bank secrecy is no defence to lawful investigative requests. FIU powers should be fully operationalized through secondary regulation. Guidelines should codify terrorist-financing indicators and rebuttable presumptions to standardize proof of intent. Third-party rights should be codified through clear rules on notice, claims, proportionality, and priority, consistent with ETS 141/CETS 198 and ECHR guarantees. Beyond technical changes, enhanced international cooperation is vital. Azerbaijan and Turkey should deepen mutual legal

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assistance and FIU-to-FIU information-sharing under the Council of Europe conventions and FATF framework. Accession to relevant EU instruments, such as the AML Directive, together with continuous training of judges, prosecutors, and tax authorities, would further harmonize standards and improve enforcement. In sum, by codifying the above reforms and strengthening cross-border coordination, both countries can fortify their tax systems against abuse, close loopholes exploited by illicit actors, and enhance the overall effectiveness of their AML/CFT regimes.

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