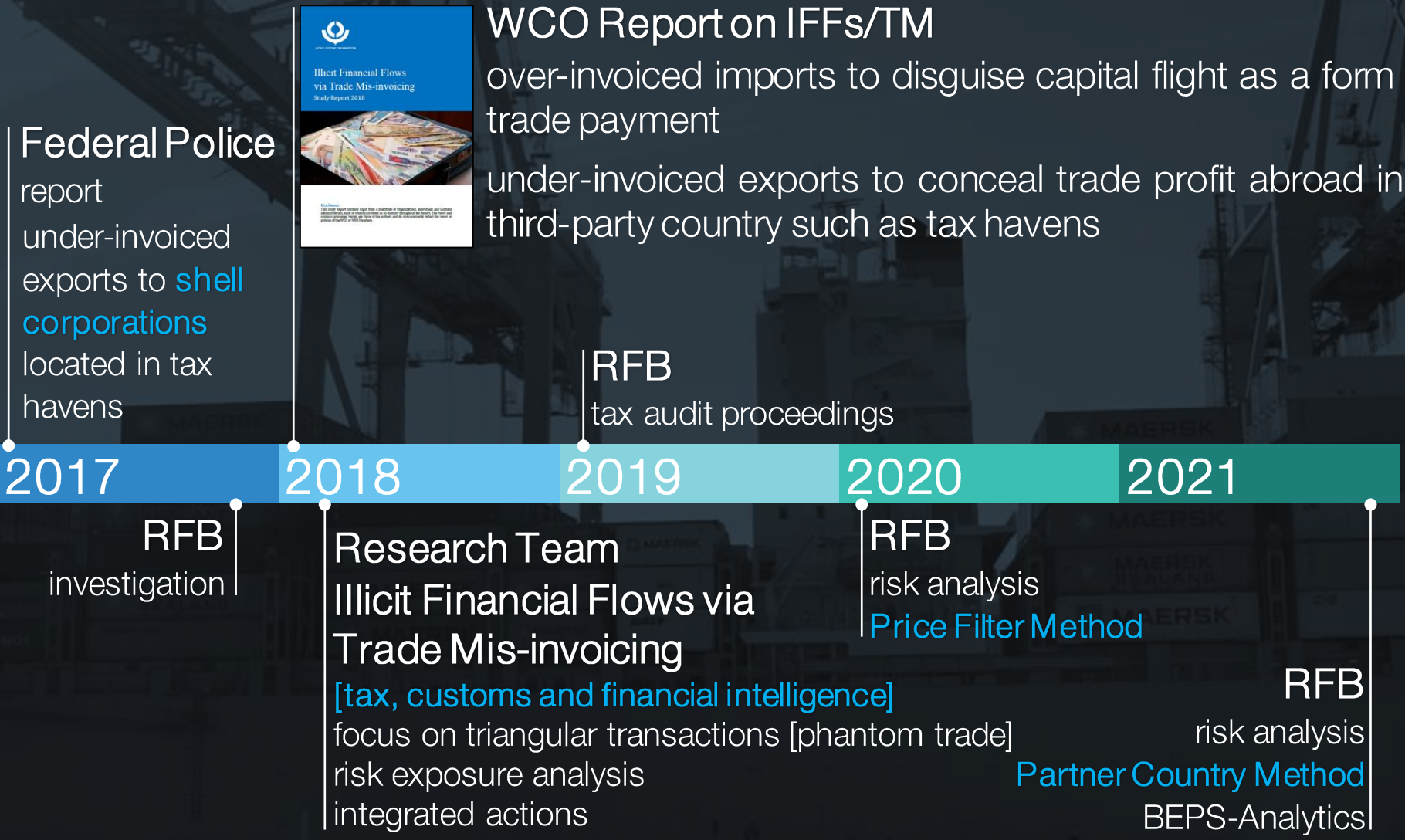# phantom trade

statistical methodology to estimate BEPS-related financial flows or tax-related illicit financial flows channeled via phantom trade
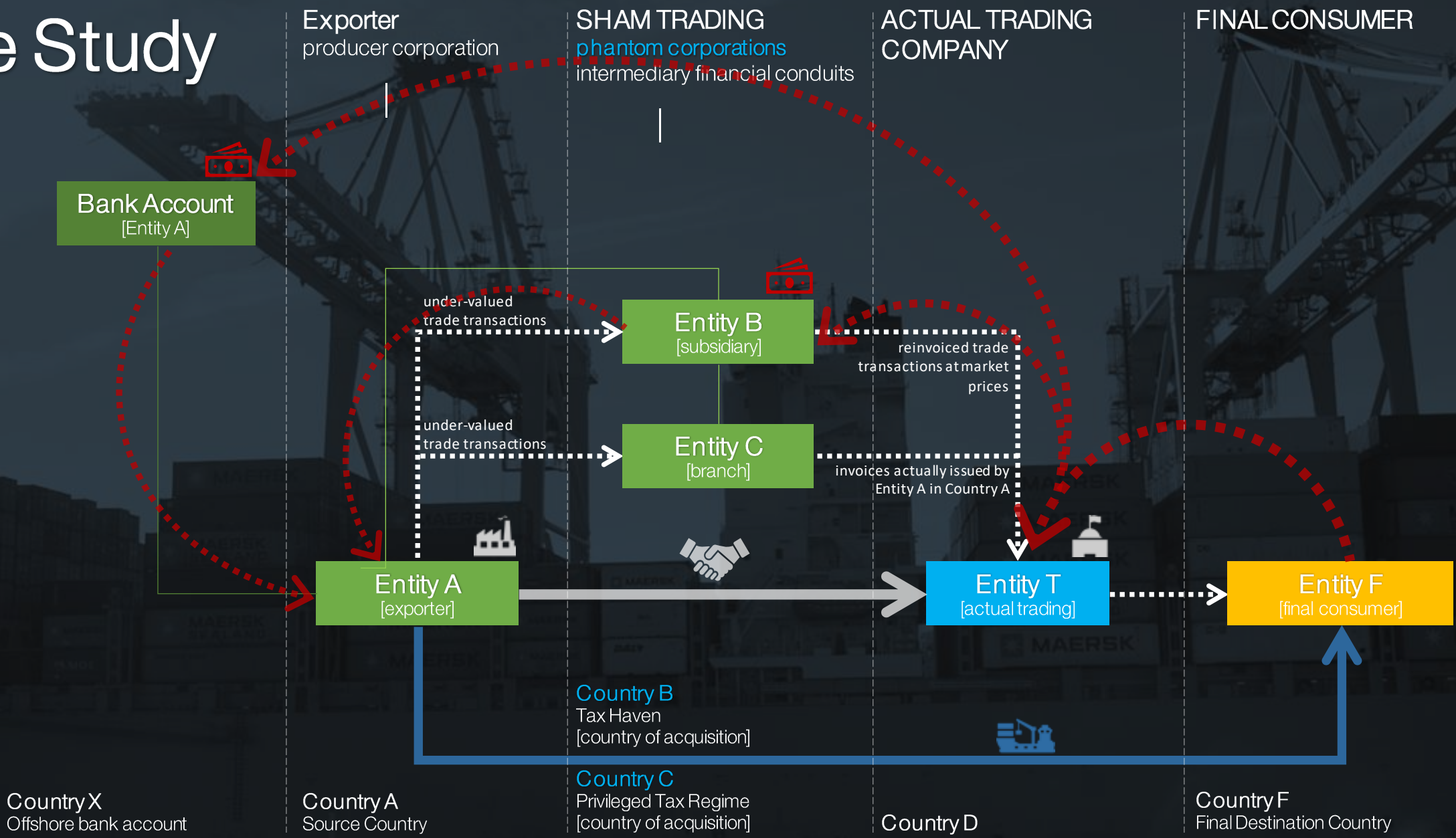
Background

WCO Report on IFFs/TM

over-invoiced imports to disguise capital flight as a form of trade payment

under-invoiced exports to conceal trade profit abroad in a third-party country such as tax havens

Federal Police
report
under-invoiced exports to shell corporations located in tax havens

RFB
tax audit proceedings

2017	2018	2019	2020	2021

RFB
investigation

Research Team
Illicit Financial Flows via Trade Mis-invoicing
[tax, customs and financial intelligence]
focus on triangular transactions [phantom trade]
risk exposure analysis
integrated actions

RFB
risk analysis
Price Filter Method

RFB
risk analysis
Partner Country Method
BEPS-Analytics

statistical methodology to estimate BEPS-related financial flows
or tax-related illicit financial flows channeled via phantom trade

Case Study
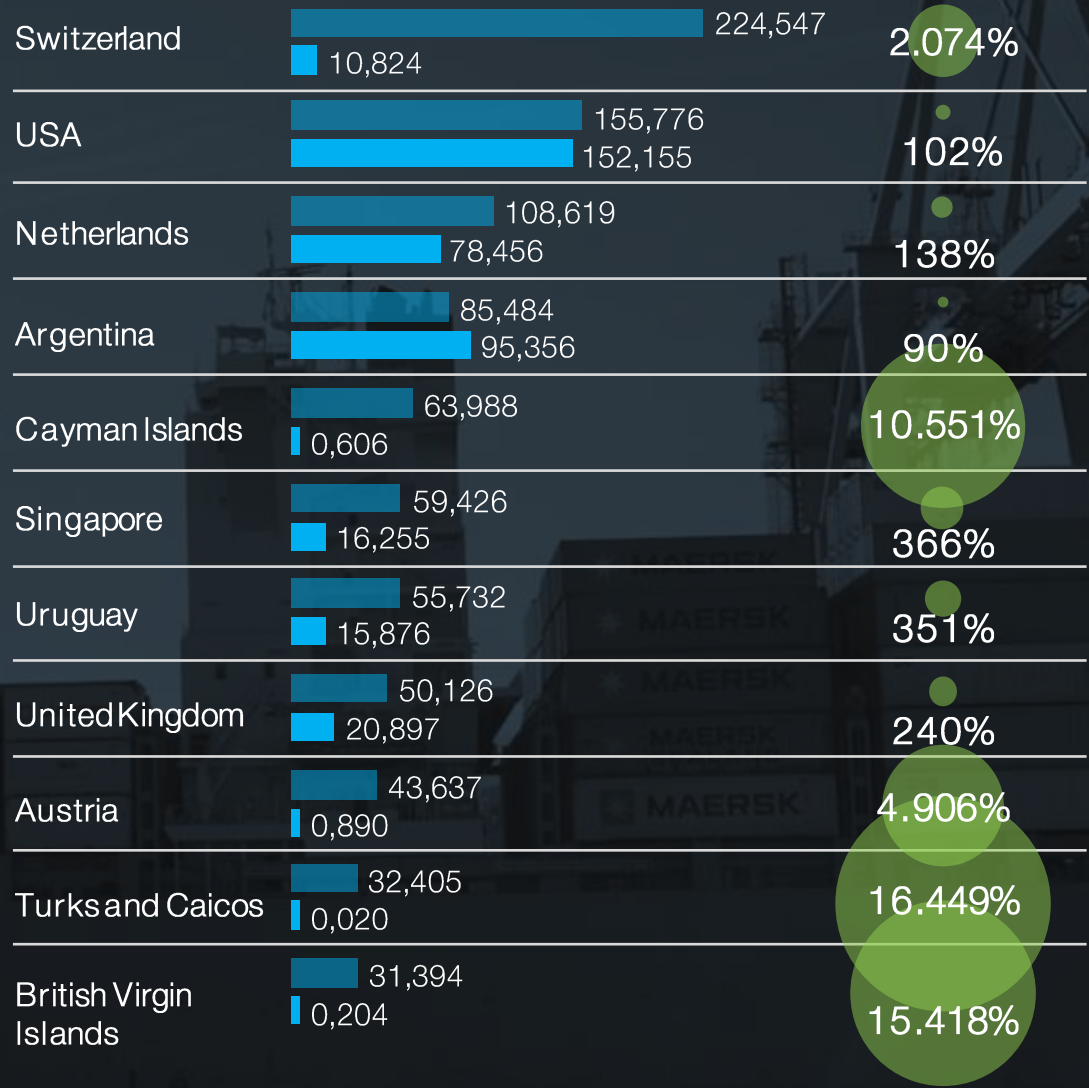
Exporter
producer corporation

SHAM TRADING
phantom corporations
intermediary financial conduits

ACTUAL TRADING COMPANY

FINAL CONSUMER

Bank Account
[Entity A]

Entity B
[subsidiary]

Entity C
[branch]

Entity A
[exporter]

Entity T
[actual trading]

Entity F
[final consumer]

under-valued trade transactions

under-valued trade transactions

reinvoiced trade transactions at market prices

invoices actually issued by Entity A in Country A

Country B
Tax Haven
[country of acquisition]

Country C
Privileged Tax Regime
[country of acquisition]

Country X
Offshore bank account

Country A
Source Country

Country D

Country F
Final Destination Country

statistical methodology to estimate BEPS-related financial flows or tax-related illicit financial flows channeled via phantom trade

Risk exposure analysis

[transaction-level trade data]

Brazil [2017]

risk exposure to IFF/TM

exports
triangular strucures
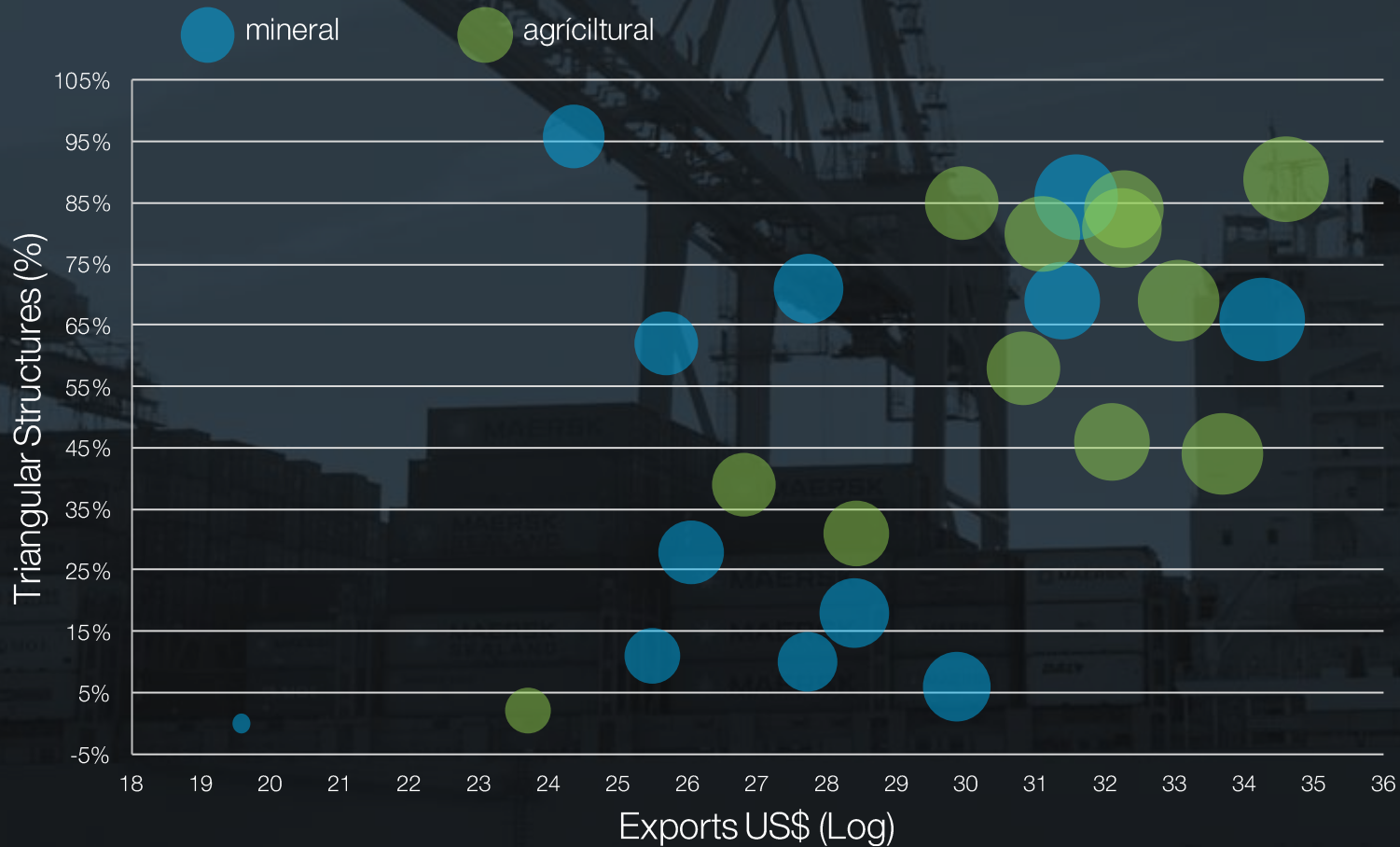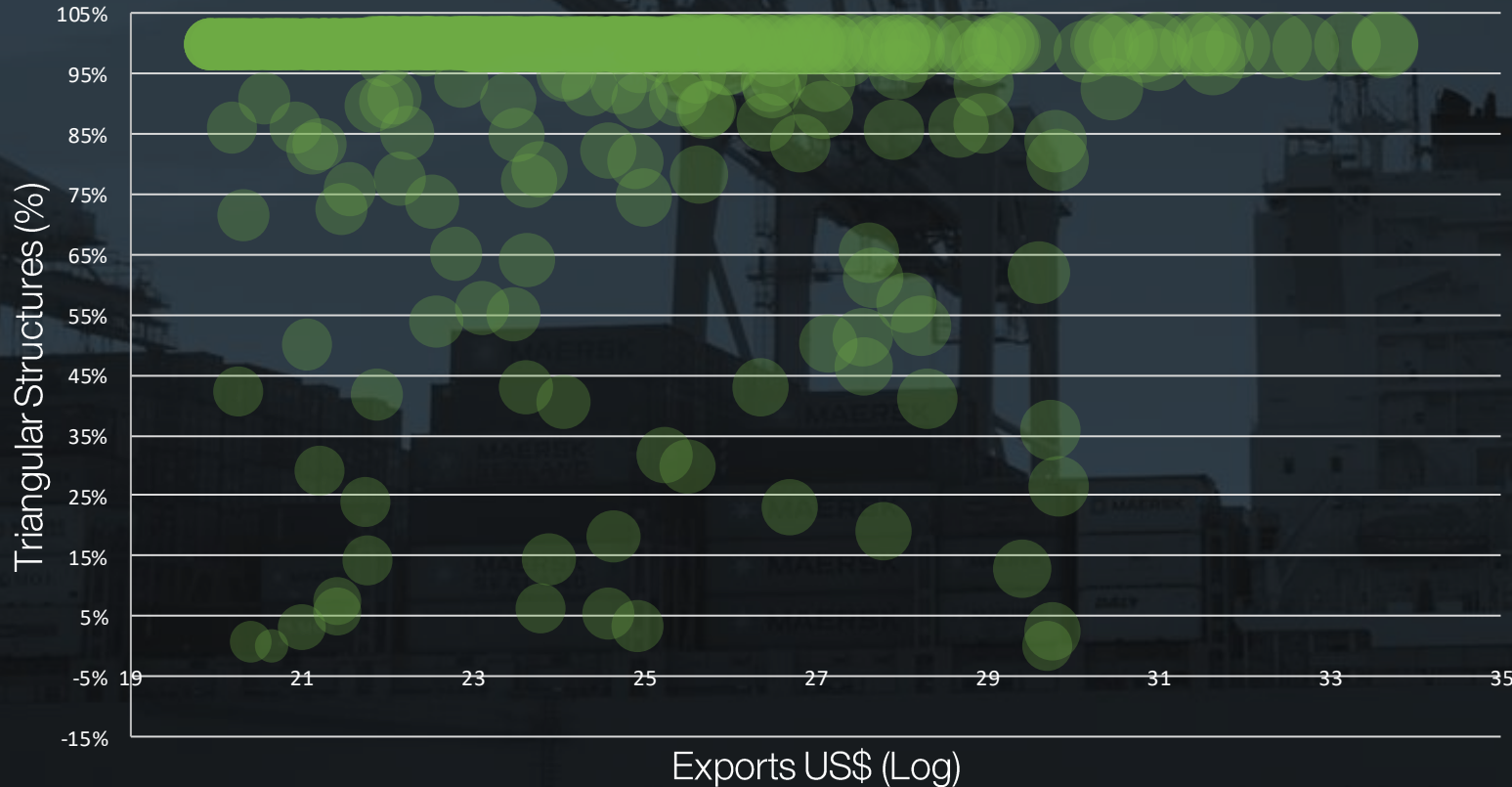tax havens or
regimes

59%

Brasil [2017]

risk exposure to IFF/TM

imports
triangular strucures
tax havens or
regimes

27%

	financial flow	goods flow	exposure
Switzerland	224,547	10,824	2.074%
USA	155,776	152,155	102%
Netherlands	108,619	78,456	138%
Argentina	85,484	95,356	90%
Cayman Islands	63,988	0,606	10.551%
Singapore	59,426	16,255	366%
Uruguay	55,732	15,876	351%
United Kingdom	50,126	20,897	240%
Austria	43,637	0,890	4.906%
Turks and Caicos	32,405	0,020	16.449%
British Virgin Islands	31,394	0,204	15.418%

financial flow

goods flow

[in billions of USD]

statistical methodology to estimate BEPS-related financial flows
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Risk exposure analysis
[exporter]

Triangular Structures (%)

105%
95%
85%
75%
65%
55%
45%
35%
25%
15%
5%
-5%
-15%

19   21   23   25   27   29   31   33   35

Exports US$ (Log)

Database
transaction-level trade data
[Customs Bureau]

Risk exposure analysis
[export/import transactions]
By commodity
By exporter/importer
By country of destination/origin
By contry of acquisition/sale
By intermediary entity located in low-tax
jurisdictions

statistical methodology to estimate BEPS-related financial flows
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Price Filter Method

[weighted moving average price including a benchmark upper and lower bound prices set at +/- 1σ]
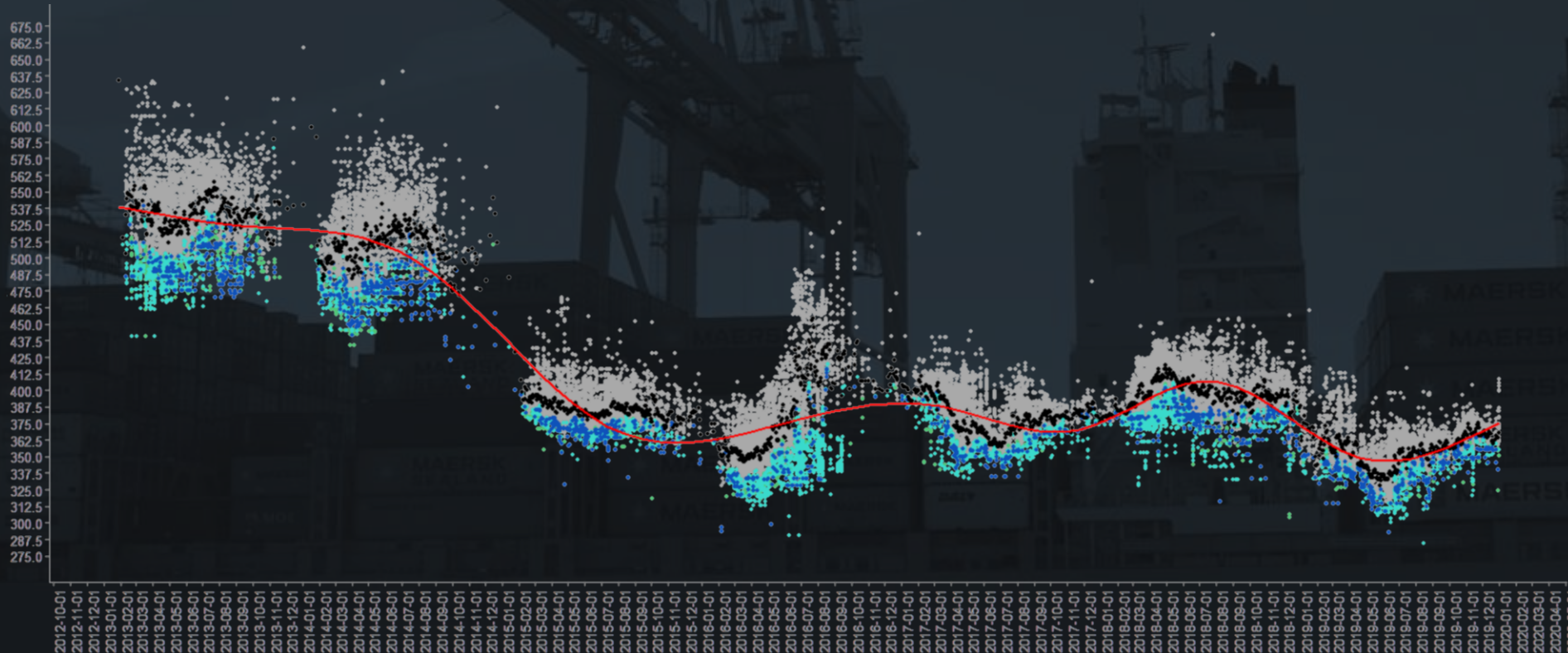
Database

transaction-level trade data
[Customs Bureau]

Price Filter

The price filters may be constructed from observable market prices or may be statistically estimated using transaction-level trade data.

Price anomalies

import overinvoicing or export underinvoicing.

statistical methodology to estimate BEPS-related financial flows
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Partner Country Method

[monthly average export prices vs trade value as reported by the importing countries]
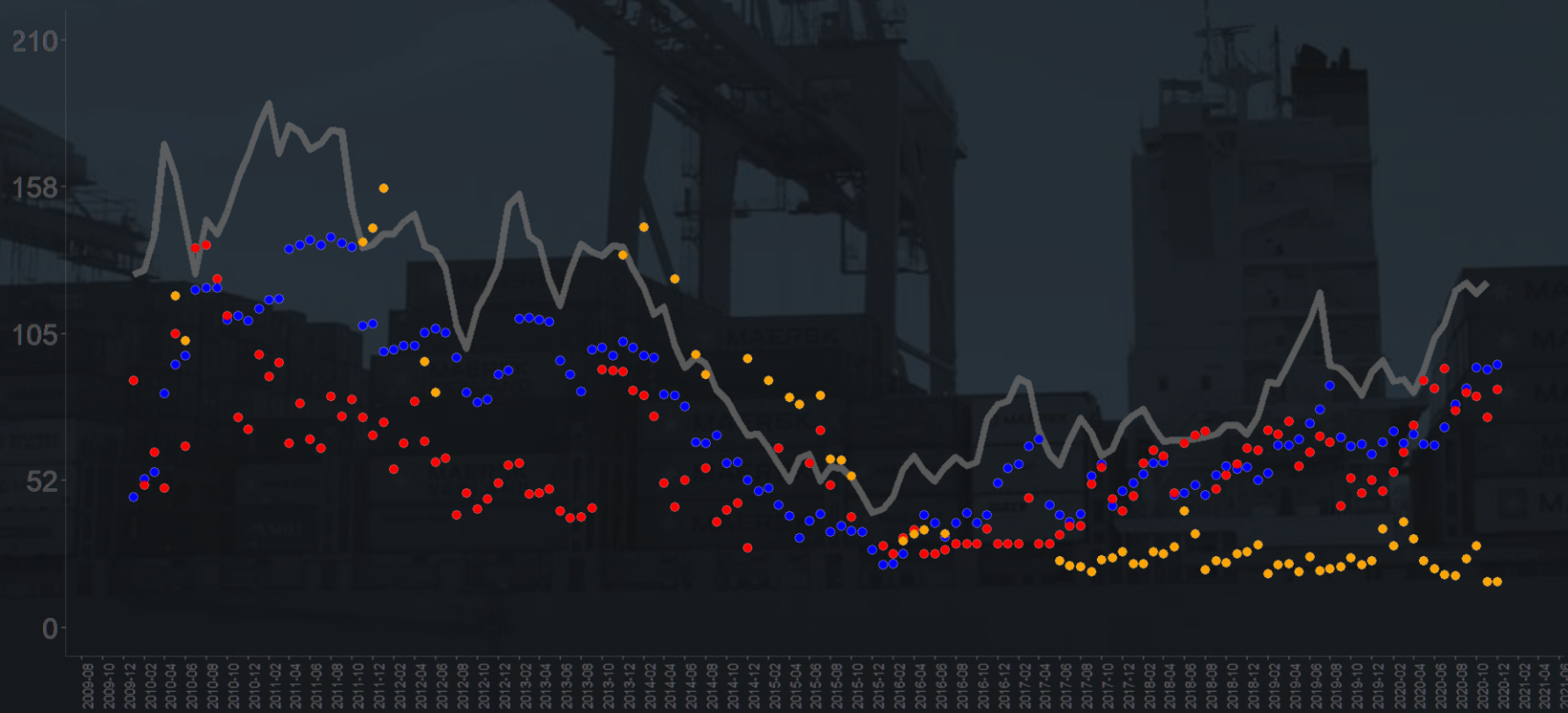
Database

transaction-level trade data
[Customs Bureau]
[IMF Primary Commodity Prices]
[UN COMTRADE]

Trade Gap
[mirror data analysis]

measures discrepancies in bilateral trade records between trade partners.

trade gaps or potential under-invoiced export transactions between Brazil and trade partners.
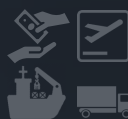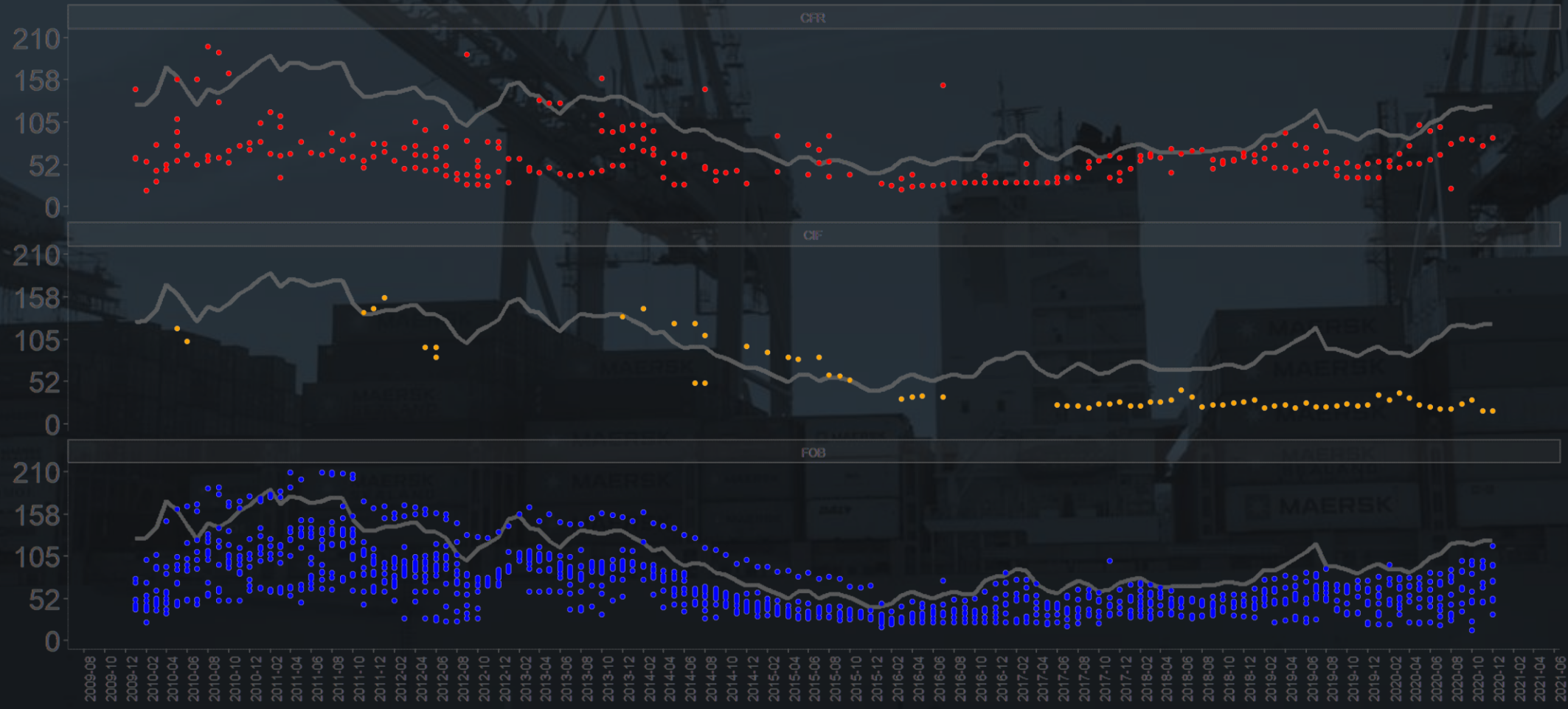
statistical methodology to estimate BEPS-related financial flows
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Partner Country Method
[exporter]

statistical methodology to estimate BEPS-related financial flows
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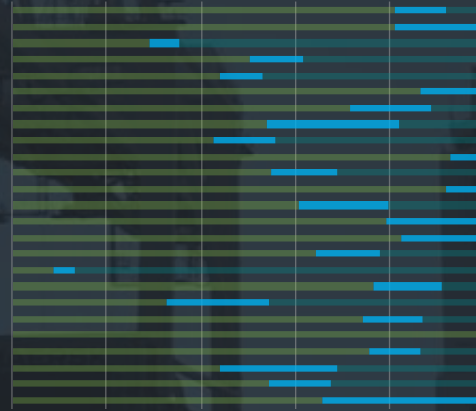
BEPS Analytics
[risk assessment tool + tax gap analysis]

risk exposure analysis
[commodity, exporter, financial intermediary]

mineral and agricultural commodities
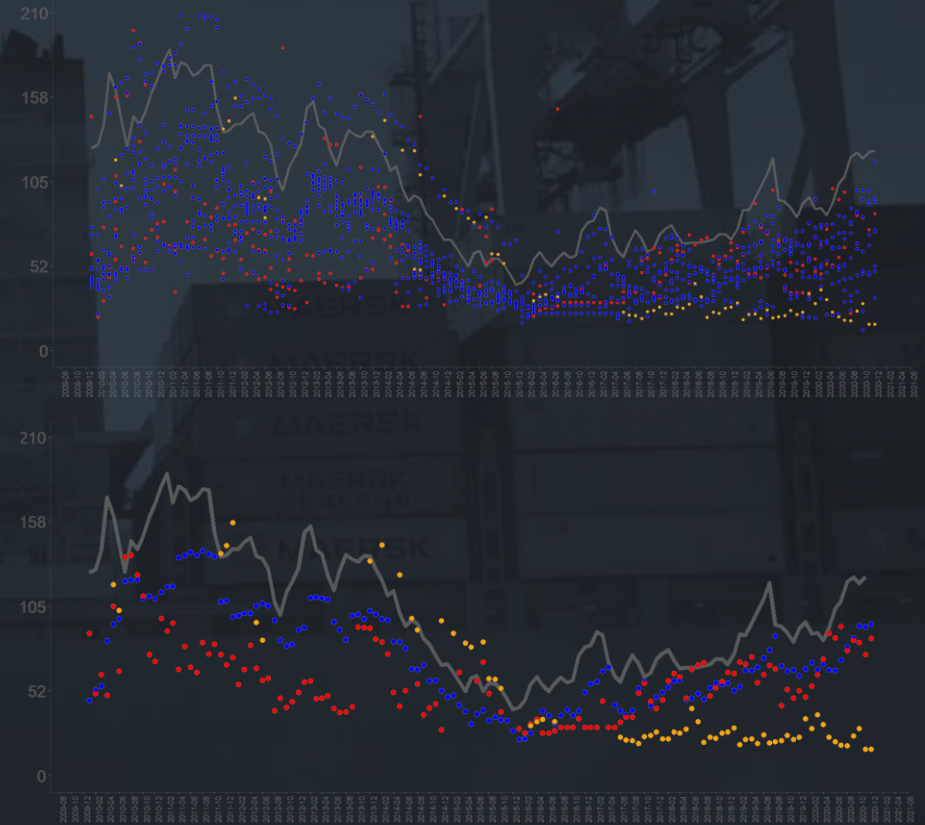
exporter A – by country

commodity 1 – by exporter

commodity 2 – by exporter

price analysis: PFM + PCM
[commodity, exporter, financial intermediary]

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Thank you for your attention!

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16.02.2021

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