



TAX AND COMMERCIAL ILLICIT FINANCIAL FLOWS

Methodological Guidelines

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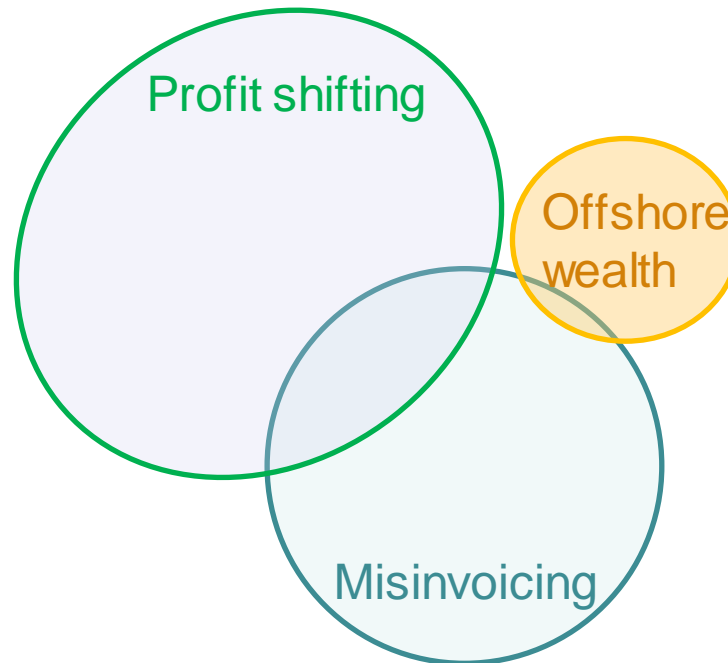
Regional Kick-off Workshop of pilot
activities for measuring Illicit Financial
Flows (IFFs) in Africa

Selecting methods

- Econometric vs statistical approach
- Comprehensive, comparable, applicable
- Criteria for selection:
 - Soundness of methods
 - Source data
 - Results

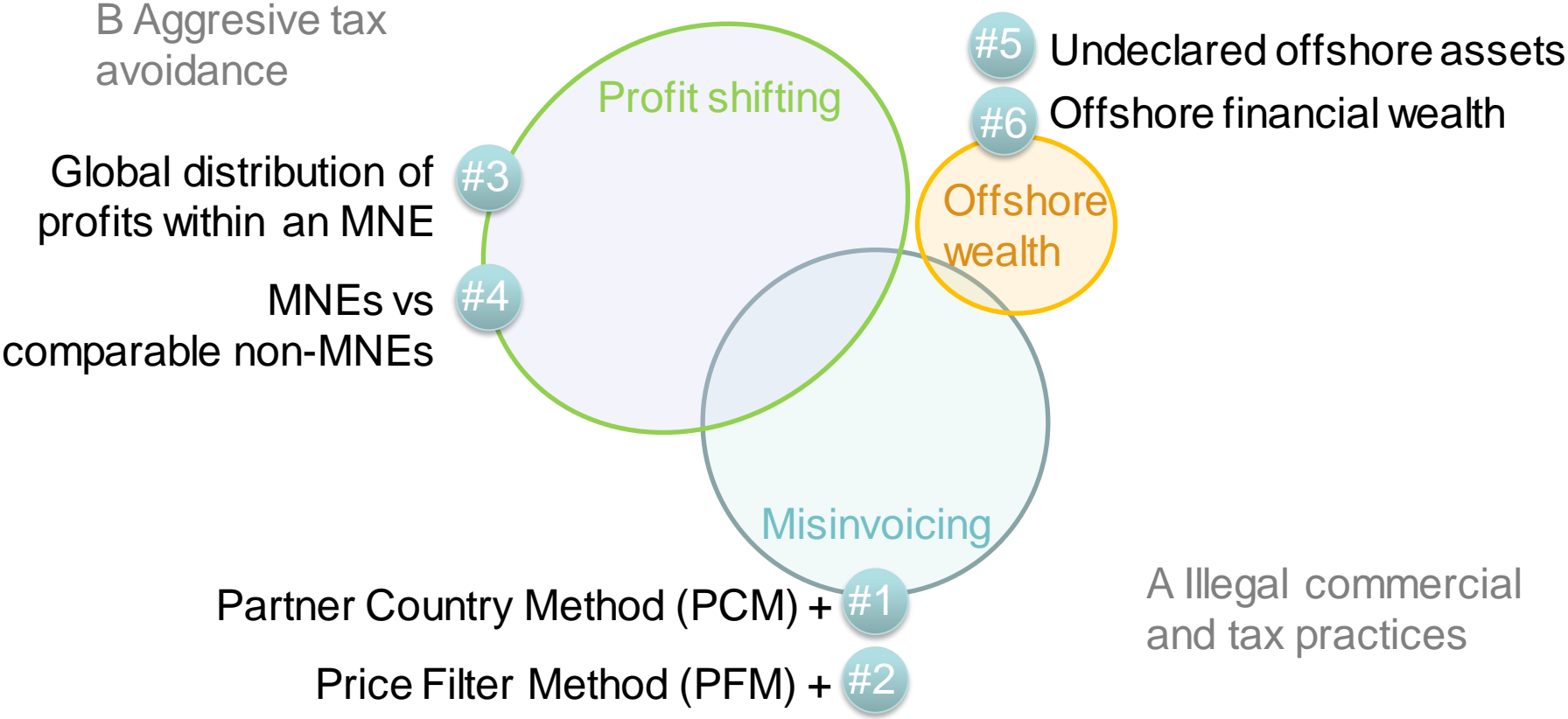
Suggested methods

B Aggressive tax avoidance



A Illegal commercial and tax practices







Suggested methods



Suggested methods - misinvoicing

#1







#2

	Partner Country Method (PCM) +	Price Filter Method (PFM) +
 Concept	Trade asymmetries	Abnormal prices
 Assumptions	Partner's trade data are accurate	Prices outside price filter -> mispricing
 Strengths	Partner country data available also globally	Not rely on partner data
 Limitations	Confounding reasons	Endogeneity of statistical filters
 Data sources	Trade data, 6-level HS	Transaction-level data
 Mitigation of limitations	Involve Customs experts	Involve Customs experts

Suggested methods – profit shifting

#3







#4

	Global distribution of profits within an MNE	MNEs vs comparable non-MNEs
 Concept	MNE shift profits to lower-tax countries	MNEs differ from domestic with profit shifting
 Assumptions	Deviation from predicted profitability is profit shifting	Domestic companies do not shift profits
 Strengths	Concept	Not all MNEs are equal
 Limitations	Underestimation	Control group in small economies
 Data sources	CbCR microdata	Firm-level data
 Mitigation of limitations	Supplement with interpretation tools	Supplement with interpretation tools

Suggested methods – offshore wealth

#5

#6

	Undeclared offshore assets	Offshore financial wealth
 Concept	Excess of citizens' assets declared	Global imbalance of international portfolio liabilities and assets
 Assumptions	Discrepancy IFFs alone	Non-compliance rate on offshore wealth
 Strengths	Relatively straightforward	Start from global-level imbalance
 Limitations	Stock-to-flow transformation	Stock-to-flow transformation
 Data sources	BIS, CRS, tax authority	BIS, IMF, tax authority
 Mitigation of limitations	Detailed data	Detailed data

Using methods

- Select methods
- National circumstances
 - Relevant types of IFFs
 - Data availability
 - Statistical capacity
- Tools in the guidelines



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