



TAX AND COMMERCIAL ILLICIT FINANCIAL FLOWS

Part II – Methods Flows of undeclared offshore assets indicator

Bojan NASTAV







Suggested methods – Transfer of wealth to evade taxes

- Flows of offshore wealth difficult to match with IFFs
 - Generation
 - Stock measure
- Methodological challenges
 - Gravity models?

Suggested methods – Transfer of wealth to evade taxes

#5

#6

	Flows of undeclared offshore assets indicator	Flows of offshore financial wealth by country
 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

Suggested methods – Transfer of wealth to evade taxes

- #5 **Flows of undeclared offshore assets indicator**

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Concept and assumptions
 - Top-down method
 - Offshore tax evasion by individuals
 - Assets declared offshore by the citizens of country A
vs
Assets of country A's citizens reported in other
countries

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Limitations
 - Not distinguish between various categories of IFFs
-> double counting!
 - Outward IFFs only
 - Data requirements and availability
 - Concepts of citizenship, tax residency
 - Assets vs flows

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Overcoming limitations
 - Data exchange
 - > agreements, confidentiality
 - Flow is difference in two subsequent stocks
 - Changes in value of assets
 - > assumptions!

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Source data
 - Locational statistics BIS
 - Coverage
 - Asset classes not considered
 - OECD CRS
 - National Tax authorities

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Calculation

$$\phi_i = \sum_j \beta_{j,i} - \alpha_i$$

ϕ_i ... undeclared assets of citizens of country i

$\beta_{j,i}$... the sum of assets of citizens of country i reported as being held in country j

α_i ... the sum of assets declared by citizens of country i as being held in other countries $j=1, \dots, n$, where $j \neq i$

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Calculation
 1. Assets vs Flows

$$flow_{i,t} = \phi_{i,t} - \phi_{i,t-1}$$

- Consumption
- Capital gains

$$flow_{i,t} = \phi_{i,t} - \phi_{i,t-1}(1 + v_t)$$

v_t ... market valuation of offshore assets using the MSCI world price index

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Calculation
 - 2. Outward IFFs only
 - Changes in assets over years:
 - Positive – capital gains?
 - Negative – consumption?
 - Required to report assets abroad?

$$OutwardIFFs_{i,t} = \max(0, flow_{i,t})$$