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

<table>
<thead>
<tr>
<th></th>
<th>Flows of undeclared offshore assets indicator</th>
<th>Flows of offshore financial wealth by country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concept</td>
<td>Excess of citizens’ assets declared</td>
<td>Global imbalance of international portfolio liabilities and assets</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Discrepancy IFFs alone</td>
<td>Non-compliance rate on offshore wealth</td>
</tr>
<tr>
<td>Strengths</td>
<td>Relatively straightforward</td>
<td>Start from global-level imbalance</td>
</tr>
<tr>
<td>Limitations</td>
<td>Stock-to-flow transformation</td>
<td>Stock-to-flow transformation</td>
</tr>
<tr>
<td>Data sources</td>
<td>BIS, CRS, tax authority</td>
<td>BIS, IMF, tax authority</td>
</tr>
<tr>
<td>Mitigation of limitations</td>
<td>Detailed data</td>
<td>Detailed data</td>
</tr>
</tbody>
</table>
Suggested methods – Transfer of wealth to evade taxes

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

**Calculation**

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

- \( \phi_i \) ... 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 \( j \)
- \( \alpha_i \) ... the sum of assets declared by citizens of country \( i \) as being held in other countries \( j=1, \ldots, n, \) where \( j \neq i \)
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Calculation
  1. Assets vs Flows

  \[ \text{flow}_{i,t} = \phi_{i,t} - \phi_{i,t-1} \]

  - Consumption
  - Capital gains

  \[ \text{flow}_{i,t} = \phi_{i,t} - \phi_{i,t-1}(1 + \nu_t) \]

  \( \nu_t \) ... market valuation of offshore assets using the MSCI world price index
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?

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