



## TAX AND COMMERCIAL ILLICIT FINANCIAL FLOWS

# Part II – Methods Flows of offshore financial wealth by country

---

Bojan NASTAV

## Suggested methods – Transfer of wealth to evade taxes

- #6 **Flows of offshore financial wealth  
by country**

#6

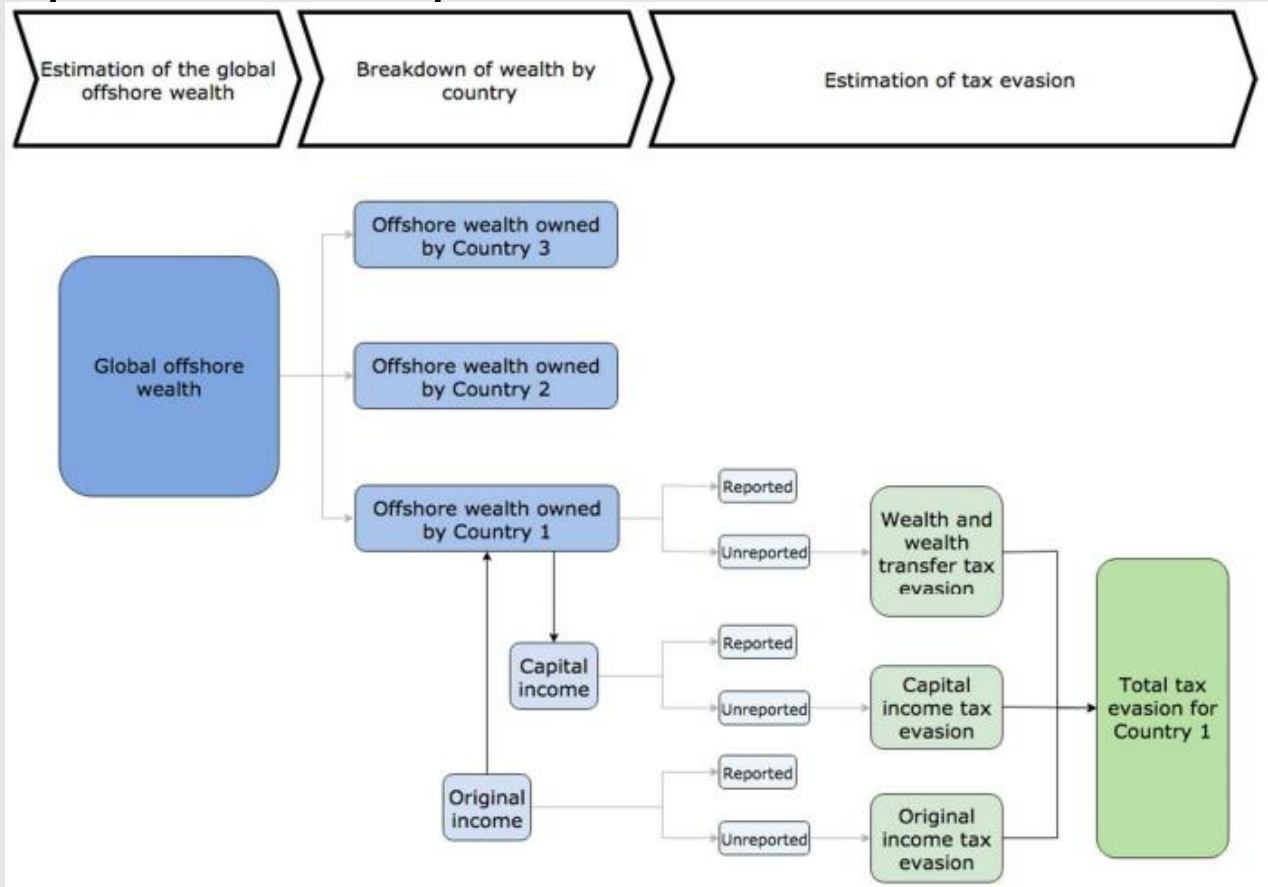
## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Concept and assumptions
  - Top-down method
  - Unreported wealth held by individuals outside their countries

#6

# Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Concept and assumptions



#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Limitations
  - Assumptions
    - Non-compliance rate
    - Divide offshore wealth into deposits and portfolio investments
    - Capital gains, wealth consumption?
    - Assets vs flows
    - Associating deposits with their origin
    - Coverage of assets
  - Not distinguish between various categories of IFFs
    - > double counting!
  - Outward IFFs only
  - Data requirements and availability

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

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

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Source data
  - International data sources
    - Statistics on international portfolio securities and on foreign deposits
    - IMF Coordinated Portfolio Investment Survey (CPIS)
    - IMF International Investment Position (IIP)
    - External Wealth of Nations Mark II database (EWN)
    - Central Bank of Switzerland
    - BIS locational banking statistics
    - **Limitations!**

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation





#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Global offshore financial wealth
  - Assume wealth = portfolio assets and deposits

$$offFinW_{G,t} = offPFW_{G,t} + Deposits_{G,t}$$

$offFinW_{G,t}$  ... global ( $G$ ) offshore financial wealth in time  $t$ ;

$offPFW_{G,t}$  ... global ( $G$ ) offshore portfolio wealth in time  $t$ ;

$Deposits_{G,t}$  ... global ( $G$ ) offshore deposits in time  $t$ .

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Global offshore financial wealth
  - Global offshore portfolio wealth

$$offPFW_{G,t} = \sum_i IPFliabilities_{i,t} - \sum_i IPFassets_{i,t}$$

$offPFW_{G,t}$  ... global ( $G$ ) offshore portfolio wealth in time  $t$ ;

$IPFliabilities_{i,t}$  ... international portfolio liability position for country  $i$  in time  $t$ ;

$IPFassets_{i,t}$  ... international portfolio asset position for country  $i$  in time  $t$ .

- Required data corrections for global-level estimates in European Commission (2019, Appendix 1)

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Global offshore financial wealth
  - Offshore deposits by assumption: 25% of financial wealth in deposits

$$Deposits_{G,t} = offPFW_{G,t} * \frac{25}{75}$$

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Breakdown by country of ownership
  - Estimate using ownership shares of cross-border deposits held by individuals in IFC
    - BIS LS
    - Not distinguish between individuals and entities
    - Adjustments made using outgoing FDI/GDP
      - > Case study

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Breakdown by country of ownership
  - Breakdown by IFC
    - Swiss National Bank; BIS
    - 2 types of IFC
      - Type I – wealth-receiving IFC
      - Type II – providing screening mechanisms, e.g., shell companies

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Estimate IFFs
  - Assumption: stock -> flows
  - Consider market valuation

$$flow_{i,t} = offFinW_{i,t} - offFinW_{i,t-1} * (1 + v_t)$$

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

#6

## Transfer of wealth to evade taxes by individuals : Flows of offshore financial wealth by country

- Calculation – Estimate IFFs
  - Assumption: non-compliance rate of 75%
  - Positive flows indications of outward IFFs

$$OutwardIFFS_{i,t} = \max(0, flow_{i,t}) * r_n$$

- Negative flows do not mean inward IFFs
- **Data availability, methodological enhancements needed**