

Statistical measurement of tax and commercial illicit financial flows to enable more targeted policy action

IFF Policy Aspect

IFF Workshop,

Lusaka, Zambia

21st to 23rd May, 2024



Introduction and Objective

- Project Objective: To strengthen statistical capacities of selected developing countries in Africa to measure tax and commercial IFFs and develop evidence-based policy responses to curb them
- UNCTAD - ALDC Mandate: Structural transformation and Economic diversification – trade-based approach, which directly links to the framework aspect of trade based IFFs
- Thus, focus of the policy analysis will be on illegal tax and commercial IFFs and in particular, trade mis-invoicing.

Based on UNCTAD 2021 and UNODC 2015: IFFs from Illegal Tax and Commercial Practices

Level (3)	Activities	Flows
08041	A1. Activities against public revenue provisions	F1. Transfer of wealth to evade taxes, i.e., flows related to undeclared offshore wealth: <ul style="list-style-type: none"> ○ Outright undeclared (concealed e.g., in secrecy jurisdictions) ○ Undeclared via instruments (Phantom corporations or shell companies, tax havens)
08042	A2. Acts against commercial or financial regulations	
08045	A3. Market manipulation or insider trading	
07019	A4. Other acts of fraud/acts of commercial fraud	
08049	A5. Other acts against public administration or regulatory provisions/other illegal and commercial tax acts	F2. Mis-invoicing <ul style="list-style-type: none"> ○ Under/over pricing ○ Multiple invoicing ○ Over/under reporting of quantities ○ Misclassification of tariff categories

Link to Measurement

- SDG Indicator 16.4.1, measurement of IFFs, of which UNCTAD (Stats) and UNODC are custodians
- Two Methods under trade mis-invoicing:
 - Method 1: Partner Country Method Plus
 - Method 2: Price Filter Method Plus

Focus areas: Zambia

Based on the IFF report from August 2022, 2 key focus areas under ***illicit tax and commercial practices***:

1. Aggressive tax avoidance
2. Illegal tax and commercial practices

Focus areas: Zambia

Illicit tax and
commercial
practices

1. Aggressive tax avoidance
2. Illegal tax and commercial practices



IFF Measurement
Methods

1. Partner Country Method
3. Global distribution of MNEs profits and their corresponding corporate taxes (Profit shifting by MNEs)

Zambia: Next Steps

PCM+ and Profit Shifting IFFs can be addressed in two ways:

1. Statistical measurement analyses: See for instance pg. 58 of the report for PCM (e.g., shipping time lags, merchanting, under capture of exports, e.t.c.); Measurement not yet started for Method 3.
2. Policy Analysis – tax avoidance vs illegal tax practices (evasion)

Way Forward: Discussion at workshop

1. Guidance/proposal for steps to be taken to review tax abuse measures for trade misinvoicing (PCM+).
2. Presentation/overview of Zambia's corporate tax policy and discussion on way forward (Profit Shifting Method).

Thank you!

