SUMMARY Working Group 2: IFFs from tax-related practices and profit shifting: typologies and definitions

Tuesday 12 December

UNITED NATIONS
UNCTAD

1. Pitfalls to avoid

- Avoid ad hoc broad definition of "illicitness"
- Avoid narrowly legalistic definitions (proven criminality):
  - Country-specific and evolving
  - Not applicable/applied in the case of IFFs originating in illegal markets and economic activities (ex: statistical definitions of crime/homicide vs narrowly legalistic definitions)
  - Other than strictly legal(istic) information taken into account for related statistical definitions and categories

1. Pitfalls to avoid

- Avoid excessive descriptiveness
  - Trying to capture all actual types of transactions (and chains of transactions) in comprehensive descriptive detail misses the point of producing viable statistical definitions/categories

2. Guiding principles for definition of IFFs <u>not</u> originating in proceeds from criminal markets and activities

- Consider appropriate level of abstraction: build statistical categories (conventions), not "snapshots" nor theoretical frameworks – 'overlaps' and/or 'category ambiguities' unavoidable

- Focus on tax-related illicit practices: Core criterion of "illicitness" is impact on tax revenues: In the absence of these practices, existing fiscal policies/regulations/legal frameworks would have produced the desired tax effect

2. Guiding principles for definition of IFFs not originating in proceeds from criminal markets and activities

Origin of assets

- Profits, capital gains and other incomes generated through legal economic activities

Generating illicit cross border financial flows through

- Profit-shifting
- Undeclared off-shore wealth
- Other abusive regulatory/tax-related practices

Resulting in tax revenue loss

- Relative to tax revenue resulting from full application of fiscal policies/regulations/laws
- Direct and indirect taxes

3. Implications for measurement and project organisation (working group 4)

- Consider basic approaches to measurement in regard to robustness, coverage and feasibility)
  - Trade-related
  - Profit misalignment (global - flows)
  - Off-shore wealth (global – stock, both company and individual)

3. Implications for measurement and project organisation (working group 4)

- Prioritize global measurements (coverage and new data)
  - Use flow and stock measure – possibility to investigate differences
- Combine global with flow-specific/country-specific measures through case studies
- Consider data sources (new data sources becoming available – feasibility)
- Remember that both flow and stock measures will need 'recalibration' due to evolving regulatory frameworks and corresponding illicit (circumvention) practices