



## TAX AND COMMERCIAL ILLICIT FINANCIAL FLOWS

# Methodological Guidelines

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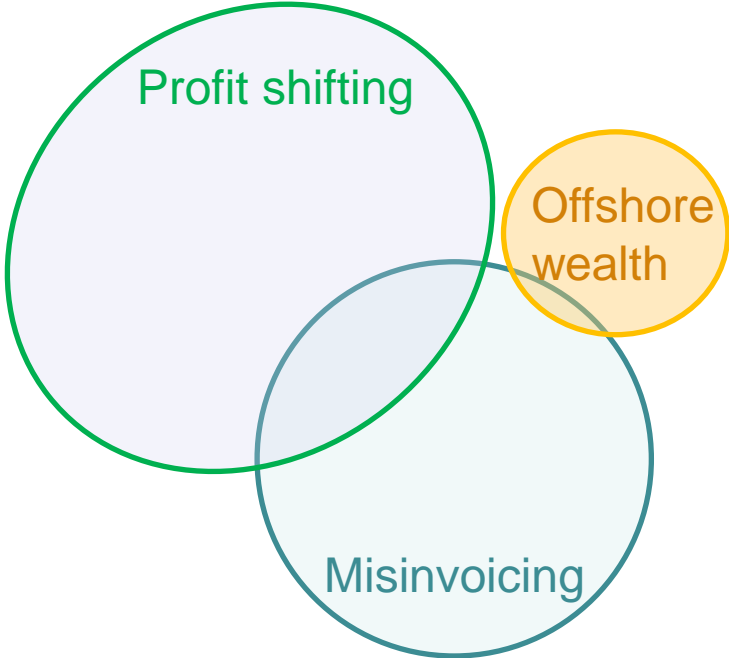
**Kick-off meeting of pilot activities for  
measuring illicit financial flows  
in Asia-Pacific countries**

# Selecting methods

- Econometric vs statistical approach
- Comprehensive, comparable, applicable
- Criteria for selection:
  - Soundness of methods
  - Source data
  - Results

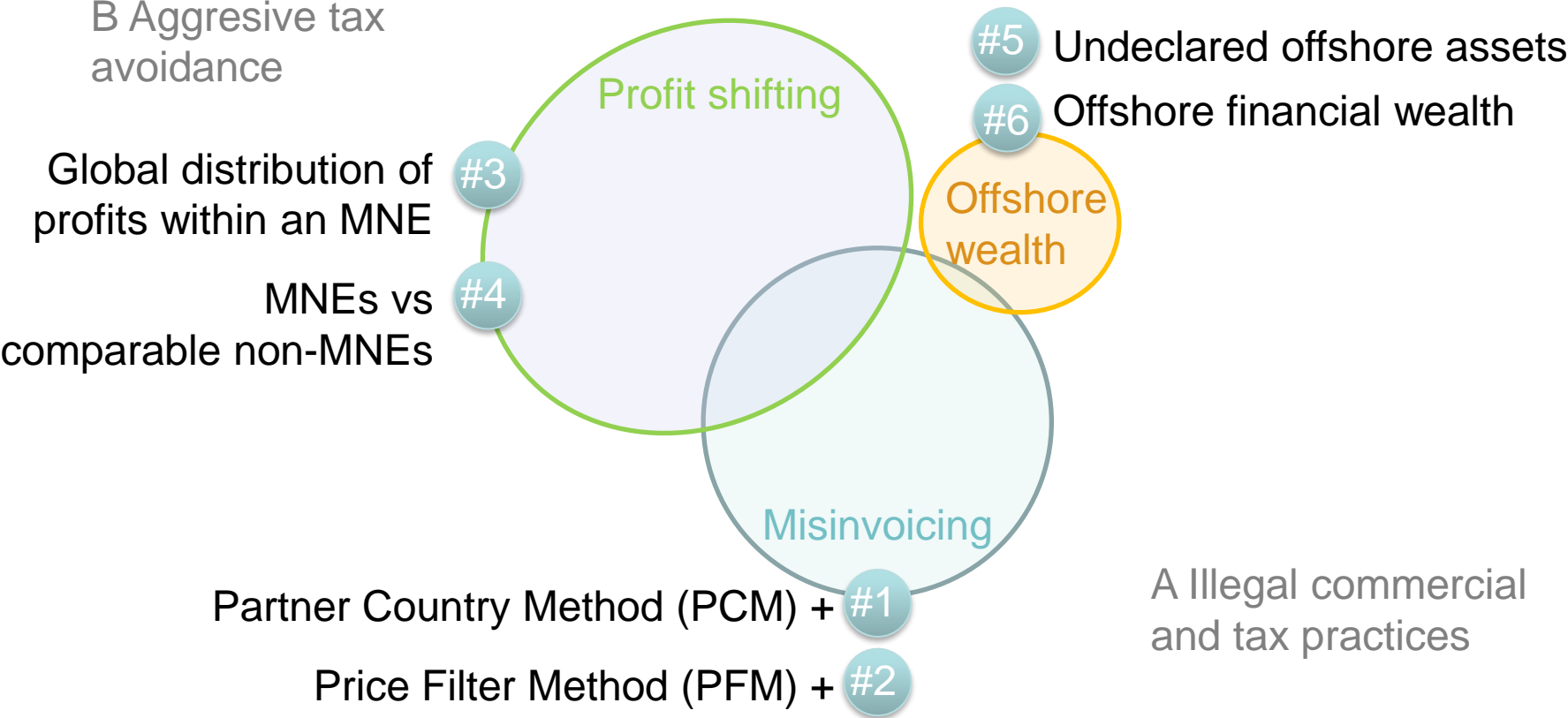
# Suggested methods

B Aggressive tax avoidance



A Illegal commercial and tax practices







# Suggested methods



# Suggested methods - misinvoicing

#1







#2

|   | Partner Country Method (PCM) +               | Price Filter Method (PFM) +               |
|---|--|---|
|  Concept                     | Trade asymmetries                            | Abnormal prices                           |
|  Assumptions                 | Partner's trade data are accurate            | Prices outside price filter -> mispricing |
|  Strengths                   | Partner country data available also globally | Not rely on partner data                  |
|  Limitations                 | Confounding reasons                          | Endogeneity of statistical filters        |
|  Data sources              | Trade data, 6-level HS                       | Transaction-level data                    |
|  Mitigation of limitations | Involve Customs experts                      | Involve Customs experts                   |

# Suggested methods – profit shifting

#3







#4

|   | Global distribution of profits within an MNE              | MNEs vs comparable non-MNEs                    |
|---|---|--|
|  Concept                     | MNE shift profits to lower-tax countries                  | MNEs differ from domestic with profit shifting |
|  Assumptions                 | Deviation from predicted profitability is profit shifting | Domestic companies do not shift profits        |
|  Strengths                   | Concept   | Not all MNEs are equal                         |
|  Limitations               | Underestimation   | Control group in small economies               |
|  Data sources              | CbCR microdata  | Firm-level data                                |
|  Mitigation of limitations | Supplement with interpretation tools                      | Supplement with interpretation tools           |

# Suggested methods – offshore wealth

#5

#6

|   | Undeclared offshore assets          | Offshore financial wealth  |
|---|-------------------------------------|--|
|  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  |

# Using methods

- Select methods
- National circumstances
  - Relevant types of IFFs
  - Data availability
  - Statistical capacity
- Tools in the guidelines





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Breakout room B

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