phantom trade

statistical methodology to estimate BEPS-related financial flows or tax-related illicit financial flows

Brazil
BEPS-related financial flows or tax-related illicit financial flows channelled via phantom trade | price filter method

**2017**
- Federal Police report
- Under-invoiced exports to shell corporations located in tax havens

**2018**
- Research Team
- Illicit Financial Flows via Trade Mis-invoicing
  - [tax, customs and financial intelligence]
  - Focus on offshore triangular transactions [phantom trade]
  - Risk exposure analysis
  - Integrated actions

**2019**
- WCO Report on IFFs via Trade Mis-invoicing
  - Over-invoiced imports to disguise capital flight as a form of trade payment
  - Under-invoiced exports to conceal trade profit abroad in a third-party country such as tax havens

**2020**
- BEPS Analytics
  - Risk analysis tool
  - PFM
  - PCM
  - Network analysis
  - Artificial intelligence algorithms

**2021**
- Risk analysis
- Price Filter Method
- Partner Country Method
- Profit Shifting [regression model]
Hypotheses: empty corporate shells or artificial offshore corporate entities (phantom corporations), with no real business activities, are used as a channel to transfer profits to lower-tax jurisdictions and reduce tax liabilities in Country A.

Economic activity: export transactions of agricultural commodities.

Manipulation: underpricing of export transactions.

Channel or enabler: empty corporate shells with no real business activities (phantom corporations) located in tax havens or privileged tax regimes, designed to minimise companies’ tax liabilities.

Tax-related illicit financial flows generating activities: international tax evasion or tax fraud.

BEPS-related financial flows generating activities: cross-border aggressive tax planning strategies, which erodes the tax base of a country where that income was generated.

Case study and infographic representation: this is a case study used to illustrate the exposure to BEPS opportunities in export transactions enabled by triangular operations with offshore intermediary entities, located in tax havens or privileged tax regime jurisdictions. It would be necessary to carry out a specific tax audit proceeding to identify, case by case, and according to the evidence collected and the national legal framework in force, if the suspicious transactions with the offshore corporate structure enable (1) tax evasion, (2) aggressive tax planning or (3) lawful tax avoidance.

Focus of research: identify profit shifting or tax evasion risks by estimating the amount of abnormal under invoiced prices in the soya bean trade market.
price filter method | abnormally priced transactions

PRICE FILTER = [MARKET PRICE or STATISTICALLY ESTIMATED PRICE] +/- \( \alpha \) (%)

SOYA BEAN PRICE FILTER = [THREE-DAY WEIGHTED MOVING AVERAGE PRICE] +/- 1\(\sigma\)

The assumption is that the undervalued export transactions or abnormally underpriced transactions in relation to the lower bound price, likely, enables profit shifting out of countries or tax-related illicit financial outflows.

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Transaction-level invoice prices, segregated by quartiles Q1, Q2, Q3 and Q4 and suspicious abnormally underpriced invoices below the lower bound.
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The transaction-level invoice prices classified in the quartile Q1 would be the most exposed to trade mispricing or profit shifting opportunities through the use of offshore intermediary entities located in low-tax jurisdictions.
Transaction-level invoice prices, segregated by type of jurisdiction or country of acquisition and estimated risk exposure to BEPS opportunities (2012-2020). Classified as:
(1) tax haven
(2) privileged tax regime
(3) other jurisdictions.

In triangular or indirect export transactions, the country of acquisition is different from the country of destination.
The price filter, statistically estimated using transaction-level trade data collected by the Customs Bureau, likely, would be biased down by cross-border aggressive tax planning strategies or tax evasion practices.
Estimated BEPS-related financial flows or tax-related illicit financial outflows

<table>
<thead>
<tr>
<th>country of acquisition</th>
<th>triangular transactions</th>
<th>Incoterms</th>
<th>total exports US$</th>
<th>quantity TON</th>
<th>estimated BEPS-related FFs US$</th>
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</thead>
<tbody>
<tr>
<td>Art.1º - Tax Haven</td>
<td>Yes</td>
<td>FOB</td>
<td>18.128.478.967</td>
<td>47.964.971</td>
<td>162.298.531</td>
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<td>Art.2º - Privileged Tax Regime</td>
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<td>79.024.100</td>
<td>300.401.808</td>
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<tr>
<td>Other jurisdictions</td>
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<td>FOB</td>
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<td>14.590.957</td>
<td>38.643.608</td>
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<tr>
<td>Other jurisdictions</td>
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<td>FOB</td>
<td>150.150.582</td>
<td>407.331</td>
<td>2.507.883</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td>53.745.171.664</td>
<td>141.987.359</td>
<td>503.851.830</td>
</tr>
</tbody>
</table>

- Transaction-level trade database biased down, likely, by aggressive tax planning strategies or tax evasion practices, results in biased down estimates.

- The price filter could be constructed based on other databases such as the ‘IMF Primary Commodity Prices Database’ or based on prices reported by relevant trade partners such as the prices reported in the ‘UN COMTRADE Database’.

- High levels of risk exposure to profit shifting or trade mispricing.

- Low-tax jurisdictions and the lack of transparency, likely, play key roles as drivers of the ‘phantom trade’ phenomena.

- The OECD Country-by-Country (CbC) Reports contain useful information on the level of revenues, profits, and economic activities, which might be used as initial indicators that mne groups have entities in low-tax jurisdictions with disproportionate earnings in relation to their level of economic activity.
Thank you for your attention