Part II – Methods
Flows of undeclared offshore assets indicator

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Suggested methods – Transfer of wealth to evade taxes

• Flows of offshore wealth difficult to match with IFFs
  – Generation
  – Stock measure

• Methodological challenges
  – Gravity models?
### Suggested methods – Transfer of wealth to evade taxes

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Suggested methods – Transfer of wealth to evade taxes

#5 Flows of undeclared offshore assets indicator
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Concept and assumptions
  - Top-down method
  - Offshore tax evasion by individuals
  - Assets declared offshore by the citizens of country A vs
  - Assets of country A’s citizens reported in other countries
Limitations
- Not distinguish between various categories of IFFs
  -> double counting!
- Outward IFFs only
- Data requirements and availability
- Concepts of citizenship, tax residency
- Assets vs flows
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Overcoming limitations
  - Data exchange
    -> agreements, confidentiality
  - Flow is difference in two subsequent stocks
  - Changes in value of assets
    -> assumptions!
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

• Source data
  – Locational statistics BIS
    • Coverage
    • Asset classes not considered
  – OECD CRS
  – National Tax authorities
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Calculation

\[ \phi_i = \sum_j \beta_{j,i} - \alpha_i \]

- \( \phi_i \) ... undeclared assets of citizens of country \( i \)
- \( \beta_{j,i} \) ... the sum of assets of citizens of country \( i \) reported as being held in country \( j \)
- \( \alpha_i \) ... the sum of assets declared by citizens of country \( i \) as being held in other countries \( j=1, \ldots, n \), where \( j \neq i \)
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

• Calculation
  1. Assets vs Flows

\[ \text{flow}_{i,t} = \phi_{i,t} - \phi_{i,t-1} \]

- Consumption
- Capital gains

\[ \text{flow}_{i,t} = \phi_{i,t} - \phi_{i,t-1}(1 + \nu_t) \]

\( \nu_t \) ... market valuation of offshore assets using the MSCI world price index
Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

• Calculation
  2. Outward IFFs only

  – Changes in assets over years:
    • Positive – capital gains?
    • Negative – consumption?
    • Required to report assets abroad?

\[
\text{OutwardIFFs}_{i,t} = \max(0, flow_{i,t})
\]