Part II – Methods
Flows of offshore financial wealth by country

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Suggested methods – Transfer of wealth to evade taxes

#6 Flows of offshore financial wealth by country
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Concept and assumptions
  - Top-down method
  - Unreported wealth held by individuals outside their countries
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Concept and assumptions

Source: The European Commission (2019)
Transfer of wealth to evade taxes by individuals:
Flows of offshore financial wealth by country

- Limitations
  - Assumptions
    - Non-compliance rate
    - Divide offshore wealth into deposits and portfolio investments
    - Capital gains, wealth consumption?
    - Assets vs flows
    - Associating deposits with their origin
    - Coverage of assets
  - Not distinguish between various categories of IFFs
    -> double counting!
  - Outward IFFs only
  - Data requirements and availability
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Overcoming limitations
  - Validation and calibration of assumptions
  - Data exchange
    - -> agreements, confidentiality
  - Flow is difference in two subsequent stocks
  - Changes in value of assets
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Source data
  - International data sources
    - Statistics on international portfolio securities and on foreign deposits
    - IMF Coordinated Portfolio Investment Survey (CPIS)
    - IMF International Investment Position (IIP)
    - External Wealth of Nations Mark II database (EWN)
    - Central Bank of Switzerland
    - BIS locational banking statistics
    - Limitations
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Calculation

Estimation of the global offshore wealth

Breakdown of wealth by country

Estimate IFFs
Transfer of wealth to evade taxes by individuals:
Flows of offshore financial wealth by country

- Calculation – Global offshore financial wealth
  - Assume wealth = portfolio assets and deposits

\[
\text{offFinW}_{G,t} = \text{offPFW}_{G,t} + \text{Deposits}_{G,t}
\]

- \(\text{offFinW}_{G,t}\) \(\rightarrow\) global (G) offshore financial wealth in time \(t\);
- \(\text{offPFW}_{G,t}\) \(\rightarrow\) global (G) offshore portfolio wealth in time \(t\);
- \(\text{Deposits}_{G,t}\) \(\rightarrow\) global (G) offshore deposits in time \(t\).
Transfer of wealth to evade taxes by individuals:
Flows of offshore financial wealth by country

- Calculation – Global offshore financial wealth
  - Global offshore portfolio wealth

\[
offPFW_{G,t} = \sum_i IPFliabilities_{i,t} - \sum_i IPFassets_{i,t}
\]

- Required data corrections for global-level estimates in European Commission (2019, Appendix 1)
Transfer of wealth to evade taxes by individuals:
Flows of offshore financial wealth by country

- Calculation – Global offshore financial wealth
  - Offshore deposits by assumption: 25% of financial wealth in deposits

\[ \text{Deposits}_{G,t} = \text{off PFW}_{G,t} \times \frac{25}{75} \]
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Calculation – Breakdown by country of ownership
  - Estimate using ownership shares of cross-border deposits held by individuals in IFC
    - BIS LS
    - Not distinguish between individuals and entities
    - Adjustments made using outgoing FDI/GDP
      -> Case study
Transfer of wealth to evade taxes by individuals:
Flows of offshore financial wealth by country

- Calculation – Breakdown by country of ownership
  - Breakdown by IFC
    - Swiss National Bank; BIS
    - 2 types of IFC
      - Type I – wealth-receiving IFC
      - Type II – providing screening mechanisms, e.g., shell companies
Transfer of wealth to evade taxes by individuals: Flows of offshore financial wealth by country

- Calculation – Estimate IFFs
  - Assumption: stock -> flows
  - Consider market valuation

\[
flow_{i,t} = offFinW_{i,t} - offFinW_{i,t-1} \times (1 + \nu_t)
\]

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

• Calculation – Estimate IFFs
  – Assumption: non-compliance rate of 75%
  – Positive flows indications of outward IFFs

\[
OutwardIFFs_{i,t} = \max(0, \text{flow}_{i,t}) \times r_n
\]

  – Negative flows do not mean inward IFFs
  – Data availability, methodological enhancements needed