Illicit Financial Flows and the Global South: A Review of Methods and Evidence

Kasper Brandt

September 6, 2023
Why study IFFs?

- Tax revenues relative to GDP remain low in the Global South (World Bank 2020).

- Inherently associated with international transactions ⇒ Unfair competition and misallocation of resources.

- Strong over-representation of wealthy households ⇒ Higher inequality (Alstadsæter et al. 2019).

- Perception about other people evading (complying with) taxes ⇒ Increasing risk of evading (complying) oneself (Alm et al. 2017; Hallsworth et al. 2017).
Why study IFFs?

- Tax revenues relative to GDP remain low in the Global South (World Bank 2020).

- Inherently associated with international transactions ⇒ Unfair competition and misallocation of resources.

- Strong over-representation of wealthy households ⇒ Higher inequality (Alstadsæter et al. 2019).

- Perception about other people evading (complying with) taxes ⇒ Increasing risk of evading (complying) oneself (Alm et al. 2017; Hallsworth et al. 2017).
Why study IFFs?

- Tax revenues relative to GDP remain low in the Global South (World Bank 2020).

- Inherently associated with international transactions ⇒ Unfair competition and misallocation of resources.

- Strong over-representation of wealthy households ⇒ Higher inequality (Alstadsæter et al. 2019).

- Perception about other people evading (complying with) taxes ⇒ Increasing risk of evading (complying) oneself (Alm et al. 2017; Hallsworth et al. 2017).
Why study IFFs?

- Tax revenues relative to GDP remain low in the Global South (World Bank 2020).

- Inherently associated with international transactions ⇒ Unfair competition and misallocation of resources.

- Strong over-representation of wealthy households ⇒ Higher inequality (Alstadsæter et al. 2019).

- Perception about other people evading (complying with) taxes ⇒ Increasing risk of evading (complying) oneself (Alm et al. 2017; Hallsworth et al. 2017).
Concept of IFFs

- “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

- ‘Illicit’ = ’Illegal’?
  - Oxford Dictionary: “Forbidden by law, rules, or customs”.
  - Cambridge Dictionary: “Illegal or disapproved of by society”.

- ‘Financial’ = Cash, profits, loans, or equity.
  What about real estate and luxury goods? More appropriate considering all assets.

- ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

- “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

- ‘Illicit’ = ’Illegal’?
  - Oxford Dictionary: “Forbidden by law, rules, or customs”.
  - Cambridge Dictionary: “Illegal or disapproved of by society”.

- ‘Financial’ = Cash, profits, loans, or equity.
  What about real estate and luxury goods? More appropriate considering all assets.

- ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

• “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

• ‘Illicit’ = ’Illegal’?
  • Oxford Dictionary: “Forbidden by law, rules, or customs”.
  • Cambridge Dictionary: “Illegal or disapproved of by society”.
  • Counter-argument: Spatial and temporal differences in customs. More pragmatic with legality.

• ‘Financial’ = Cash, profits, loans, or equity. What about real estate and luxury goods? More appropriate considering all assets.

• ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

• “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

• ‘Illicit’ = ’Illegal’?
  • Oxford Dictionary: “Forbidden by law, rules, or customs”.
  • Cambridge Dictionary: “Illegal or disapproved of by society”.
  • Counter-argument: Spatial and temporal differences in customs. More pragmatic with legality.

• ‘Financial’ = Cash, profits, loans, or equity. What about real estate and luxury goods? More appropriate considering all assets.

• ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

- “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

- ‘Illicit’ = ’Illegal’?
  - Oxford Dictionary: “Forbidden by law, rules, or customs”.
  - Cambridge Dictionary: “Illegal or disapproved of by society”.


- ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

• “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

• ‘Illicit’ = ’Illegal’?
  • Oxford Dictionary: “Forbidden by law, rules, or customs”.
  • Cambridge Dictionary: “Illegal or disapproved of by society”.
  • Counter-argument: Spatial and temporal differences in customs. More pragmatic with legality.

• ‘Financial’ = Cash, profits, loans, or equity.
  What about real estate and luxury goods? More appropriate considering all assets.

• ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

• “If there is already a clear global consensus around the wider definition, it is a well-kept secret.” – Forstater (2018)

• ‘Illicit’ = ’Illegal’?
  • Oxford Dictionary: “Forbidden by law, rules, or customs”.
  • Cambridge Dictionary: “Illegal or disapproved of by society”.
  • Counter-argument: Spatial and temporal differences in customs. More pragmatic with legality.

• ‘Financial’ = Cash, profits, loans, or equity. What about real estate and luxury goods? More appropriate considering all assets.

• ‘Flows’ ⇒ Assets moving from one person or place to another.
Concept of IFFs

• All agree IFFs include activities related to illegal markets, terrorism, tax evasion, corruption, deliberate misreporting, and illegal trade practices.

• OECD, IMF, and the World Bank use a narrow definition of IFFs, but acknowledge there is a global discussion on whether to include illicit activities.

• The European Union, the African Union, and the United Nations further acknowledge legal practices, such as abusive transfer pricing, as IFFs.

• Where does this leave us? In the paper, I advocate for the broad definition.
Concept of IFFs

- All agree IFFs include activities related to illegal markets, terrorism, tax evasion, corruption, deliberate misreporting, and illegal trade practices.

- OECD, IMF, and the World Bank use a narrow definition of IFFs, but acknowledge there is a global discussion on whether to include illicit activities.

- The European Union, the African Union, and the United Nations further acknowledge legal practices, such as abusive transfer pricing, as IFFs.

- Where does this leave us? In the paper, I advocate for the broad definition.
Concept of IFFs

- All agree IFFs include activities related to illegal markets, terrorism, tax evasion, corruption, deliberate misreporting, and illegal trade practices.

- OECD, IMF, and the World Bank use a narrow definition of IFFs, but acknowledge there is a global discussion on whether to include illicit activities.

- The European Union, the African Union, and the United Nations further acknowledge legal practices, such as abusive transfer pricing, as IFFs.

- Where does this leave us? In the paper, I advocate for the broad definition.
Concept of IFFs

- All agree IFFs include activities related to illegal markets, terrorism, tax evasion, corruption, deliberate misreporting, and illegal trade practices.

- OECD, IMF, and the World Bank use a narrow definition of IFFs, but acknowledge there is a global discussion on whether to include illicit activities.

- The European Union, the African Union, and the United Nations further acknowledge legal practices, such as abusive transfer pricing, as IFFs.

- Where does this leave us? In the paper, I advocate for the broad definition.
The present framework applies the profit shifting terminology, but can be thought of in more general tax avoidance terms.

Traditionally, studies tend to focus on the marginal gains and costs of shifting profits ⇒ Interior solutions.

Recent studies emphasize the importance of fixed costs (Davies et al. 2018; Johannesen et al. 2019) ⇒ Corner solutions more likely.

Profit shifting may further depend on whether activities are illegal or illicit.
Theoretical framework

• The present framework applies the profit shifting terminology, but can be thought of in more general tax avoidance terms.

• Traditionally, studies tend to focus on the marginal gains and costs of shifting profits ⇒ Interior solutions.

• Recent studies emphasize the importance of fixed costs (Davies et al. 2018; Johannesen et al. 2019) ⇒ Corner solutions more likely.

• Profit shifting may further depend on whether activities are illegal or illicit.
Theoretical framework

• The present framework applies the profit shifting terminology, but can be thought of in more general tax avoidance terms.

• Traditionally, studies tend to focus on the marginal gains and costs of shifting profits ⇒ Interior solutions.

• Recent studies emphasize the importance of fixed costs (Davies et al. 2018; Johannesen et al. 2019) ⇒ Corner solutions more likely.

• Profit shifting may further depend on whether activities are illegal or illicit.
The theoretical framework applies the profit shifting terminology, but can be thought of in more general tax avoidance terms.

Traditionally, studies tend to focus on the marginal gains and costs of shifting profits ⇒ Interior solutions.

Recent studies emphasize the importance of fixed costs (Davies et al. 2018; Johannesen et al. 2019) ⇒ Corner solutions more likely.

Profit shifting may further depend on whether activities are illegal or illicit.
Theoretical framework

\[ \Gamma = (\tau_i - \tau_j) \times PS_{\text{legal}} - C_{\text{legal}} + (\tau_i - \tau_j) \times PS_{\text{illegal}} - C_{\text{illegal}} - \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{\text{illegal}}^\gamma \]

Where:

- \( \Gamma \) = Additional profits.
- \( \tau_i - \tau_j \) = Tax rate gap between countries \( i \) and \( j \).
- \( PS_{\text{legal}} \) and \( PS_{\text{illegal}} \) = Profits shifted legally and illegally.
- \( C_{\text{legal}} \) and \( C_{\text{illegal}} \) = Fixed costs of legal and illegal profit shifting.
- \( \alpha \) = Capacity of the tax authorities.
- \( \beta \) = Punishment if being caught.
- \( \gamma \) = Potential convexity in risk of being caught.
Theoretical framework

- Optimal illegal profit shifting:

\[
\frac{\partial \Gamma}{\partial PS_{\text{illegal}}} = (\tau_i - \tau_j) - \gamma \times \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{\text{illegal}}^{\gamma - 1} = 0
\]

\[\Rightarrow \gamma \times \alpha \times \beta \times PS_{\text{illegal}}^{\gamma - 1} = 1\]

\[\Rightarrow PS_{\text{illegal}}^{\gamma - 1} = \frac{1}{\gamma \times \alpha \times \beta}\]

\[\Rightarrow PS_{\text{illegal}} = \left(\frac{1}{\gamma \times \alpha \times \beta}\right)^{\frac{1}{\gamma - 1}}\]

- Optimal size is negatively associated with capacity of tax authorities, punishment, and convexity in risk of being caught.

- Not dependent on the tax rate gap.
Theoretical framework

• Optimal illegal profit shifting:

\[
\frac{\partial \Gamma}{\partial PS_{\text{illegal}}} = (\tau_i - \tau_j) - \gamma \times \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{\text{illegal}}^{\gamma - 1} = 0
\]

\[\Rightarrow \gamma \times \alpha \times \beta \times PS_{\text{illegal}}^{\gamma - 1} = 1\]

\[\Rightarrow PS_{\text{illegal}}^{\gamma - 1} = \frac{1}{\gamma \times \alpha \times \beta}\]

\[\Rightarrow PS_{\text{illegal}} = \left(\frac{1}{\gamma \times \alpha \times \beta}\right)^{\frac{1}{\gamma - 1}}\]

• Optimal size is negatively associated with capacity of tax authorities, punishment, and convexity in risk of being caught.

• Not dependent on the tax rate gap.
Theoretical framework

- Optimal illegal profit shifting:

\[
\frac{\partial \Gamma}{\partial PS_{illegal}} = (\tau_i - \tau_j) - \gamma \times \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{illegal}^{\gamma - 1} = 0
\]

\[
\Rightarrow \gamma \times \alpha \times \beta \times PS_{illegal}^{\gamma - 1} = 1
\]

\[
\Rightarrow PS_{illegal}^{\gamma - 1} = \frac{1}{\gamma \times \alpha \times \beta}
\]

\[
\Rightarrow PS_{illegal} = \left( \frac{1}{\gamma \times \alpha \times \beta} \right)^{\gamma - 1}
\]

- Optimal size is negatively associated with capacity of tax authorities, punishment, and convexity in risk of being caught.

- Not dependent on the tax rate gap.
Theoretical framework

- In order to shift profits illegally, three conditions must be met:
  1. \((\tau_i - \tau_j) \times PS_{illegal}^* > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{illegal}^*\gamma\)
  2. \(PS_{illegal}^* \leq \Pi - PS_{legal}^*\) or \((\tau_i - \tau_j) \times (\Pi - PS_{legal}^*) > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times (\Pi - PS_{legal}^*)\gamma\)
  3. \(\Gamma^* > 0\)

- In order to shift profits legally (illicitly), either of the two conditions must be met:
  1. \((\tau_i - \tau_j) \times PS_{legal}^* > C_{legal}\)
  2. \((\tau_i - \tau_j) \times PS_{legal}^* < C_{legal}\) and \(\Gamma^* > 0\)
Theoretical framework

• In order to shift profits illegally, three conditions must be met:

1. \[(\tau_i - \tau_j) \times PS_{illegal}^* > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{illegal}^\gamma\]
2. \[PS_{illegal}^* \leq \Pi - PS_{legal}^* \text{ or } (\tau_i - \tau_j) \times (\Pi - PS_{legal}^*) > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times (\Pi - PS_{legal}^*)^\gamma\]
3. \[\Gamma^* > 0\]

• In order to shift profits legally (illicitly), either of the two conditions must be met:

1. \[(\tau_i - \tau_j) \times PS_{legal}^* > C_{legal}\]
2. \[(\tau_i - \tau_j) \times PS_{legal}^* < C_{legal} \text{ and } \Gamma^* > 0\]
Theoretical framework

• In order to shift profits illegally, three conditions must be met:

1. \((\tau_i - \tau_j) \times PS_{illegal}^* > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{illegal}^\gamma\)

2. \(PS_{illegal}^* \leq \Pi - PS_{legal}^* \text{ or } (\tau_i - \tau_j) \times (\Pi - PS_{legal}^*) > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times (\Pi - PS_{legal}^\gamma)\)

3. \(\Gamma^* > 0\)

• In order to shift profits legally (illicitly), either of the two conditions must be met:

1. \((\tau_i - \tau_j) \times PS_{legal}^* > C_{legal}\)

2. \((\tau_i - \tau_j) \times PS_{legal}^* < C_{legal} \text{ and } \Gamma^* > 0\)
Theoretical framework

- In order to shift profits illegally, three conditions must be met:
  1. \( (\tau_i - \tau_j) \times PS_{\text{illegal}}^* > C_{\text{illegal}} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{\text{illegal}}^\gamma \)
  2. \( PS_{\text{illegal}}^* \leq \Pi - PS_{\text{legal}}^* \) or
     \( (\tau_i - \tau_j) \times (\Pi - PS_{\text{legal}}^*) > C_{\text{illegal}} + \alpha \times \beta \times (\tau_i - \tau_j) \times (\Pi - PS_{\text{legal}}^*)^\gamma \)
  3. \( \Gamma^* > 0 \)

- In order to shift profits legally (illicitly), either of the two conditions must be met:
  1. \( (\tau_i - \tau_j) \times PS_{\text{legal}}^* > C_{\text{legal}} \)
  2. \( (\tau_i - \tau_j) \times PS_{\text{legal}}^* < C_{\text{legal}} \) and \( \Gamma^* > 0 \)
Theoretical framework

- In order to shift profits illegally, three conditions must be met:

1. \((\tau_i - \tau_j) \times PS_{illegal}^* > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{illegal}^*\gamma\)

2. \(PS_{illegal}^* \leq \Pi - PS_{legal}^*\) or 
\((\tau_i - \tau_j) \times \left(\Pi - PS_{legal}^*\right) > \\
C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times \left(\Pi - PS_{legal}^*\right)^\gamma\)

3. \(\Gamma^* > 0\)

- In order to shift profits legally (illicitly), either of the two conditions must be met:

1. \((\tau_i - \tau_j) \times PS_{legal}^* > C_{legal}\)

2. \((\tau_i - \tau_j) \times PS_{legal}^* < C_{legal}\) and \(\Gamma^* > 0\)
Theoretical framework

• In order to shift profits illegally, three conditions must be met:

1. \((\tau_i - \tau_j) \times PS_{illegal}^* > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS_{illegal}^* \gamma\)

2. \(PS_{illegal}^* \leq \Pi - PS_{legal}^* \) or

   \((\tau_i - \tau_j) \times \left(\Pi - PS_{legal}^*\right) > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times \left(\Pi - PS_{legal}^*\right) \gamma\)

3. \(\Gamma^* > 0\)

• In order to shift profits legally (illicitly), either of the two conditions must be met:

1. \((\tau_i - \tau_j) \times PS_{legal}^* > C_{legal}\)

2. \((\tau_i - \tau_j) \times PS_{legal}^* < C_{legal} \) and \(\Gamma^* > 0\)
Theoretical framework

• In order to shift profits illegally, three conditions must be met:

1. \((\tau_i - \tau_j) \times PS^*_{illegal} > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times PS^*_{illegal} \gamma\)

2. \(PS^*_{illegal} \leq \Pi - PS^*_{legal}\) or
   \((\tau_i - \tau_j) \times (\Pi - PS^*_{legal}) > C_{illegal} + \alpha \times \beta \times (\tau_i - \tau_j) \times (\Pi - PS^*_{legal}) \gamma\)

3. \(\Gamma^* > 0\)

• In order to shift profits legally (illicitly), either of the two conditions must be met:

1. \((\tau_i - \tau_j) \times PS^*_{legal} > C_{legal}\)

2. \((\tau_i - \tau_j) \times PS^*_{legal} < C_{legal}\) and \(\Gamma^* > 0\)
Methods review

• Macroeconomic statistics
  • Balance of payments
  • Aggregate liabilities and assets (‘Zucman’ method)
  • Aggregate domestic versus foreign firms
  • Aggregate corporate income tax bases
  • Phantom FDIs

• Trade mis invoicing

• Intra-firm profit shifting

• Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
    - Aggregate liabilities and assets (‘Zucman’ method)
    - Aggregate domestic versus foreign firms
    - Aggregate corporate income tax bases
    - Phantom FDIs
  - Trade misinvoicing
  - Intra-firm profit shifting
  - Other approaches to study IFFs
Methods review

• Macroeconomic statistics
  • Balance of payments
  • Aggregate liabilities and assets (‘Zucman’ method)
    • Aggregate domestic versus foreign firms
    • Aggregate corporate income tax bases
    • Phantom FDIs

• Trade misinvoicing

• Intra-firm profit shifting

• Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
  - Aggregate liabilities and assets (‘Zucman’ method)
  - Aggregate domestic versus foreign firms
    - Aggregate corporate income tax bases
    - Phantom FDIs
  - Trade misinvoicing
  - Intra-firm profit shifting
  - Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
  - Aggregate liabilities and assets (‘Zucman’ method)
  - Aggregate domestic versus foreign firms
  - Aggregate corporate income tax bases
  - Phantom FDIs

- Trade misinvoicing

- Intra-firm profit shifting

- Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
  - Aggregate liabilities and assets ('Zucman’ method)
  - Aggregate domestic versus foreign firms
  - Aggregate corporate income tax bases
  - Phantom FDIs

- Trade misinvoicing

- Intra-firm profit shifting

- Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
  - Aggregate liabilities and assets (‘Zucman’ method)
  - Aggregate domestic versus foreign firms
  - Aggregate corporate income tax bases
  - Phantom FDIs

- Trade mis invoicing
  - Intra-firm profit shifting

- Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
  - Aggregate liabilities and assets (‘Zucman’ method)
  - Aggregate domestic versus foreign firms
  - Aggregate corporate income tax bases
  - Phantom FDIs

- Trade mis invoicing

- Intra-firm profit shifting

- Other approaches to study IFFs
Methods review

- Macroeconomic statistics
  - Balance of payments
  - Aggregate liabilities and assets (‘Zucman’ method)
  - Aggregate domestic versus foreign firms
  - Aggregate corporate income tax bases
  - Phantom FDIs

- Trade misinvoicing

- Intra-firm profit shifting

- Other approaches to study IFFs
Findings (macroeconomic statistics)

- Capital flight from developing countries of $150-200B in 2010 and $172B in 2014 (Henry 2012; Spanjers and Salomon 2017).
- Around $7.6T held in unrecorded wealth by individuals in tax havens in 2014 (Zucman 2015).
- Pre-tax profits to wages ratios are substantially higher in low-tax countries for MNEs. Not for domestic firms (Tørsløv et al. 2018).
- Annual global tax loss of $500–650 billion (Crivelli 2016; Cobham and Janský 2018).
- Almost 40% of FDIs were not related to any real activity in 2017 (Damgaard et al. 2019).
Findings (macroeconomic statistics)

- Capital flight from developing countries of $150-200B in 2010 and $172B in 2014 (Henry 2012; Spanjers and Salomon 2017).

- Around $7.6T held in unrecorded wealth by individuals in tax havens in 2014 (Zucman 2015).

- Pre-tax profits to wages ratios are substantially higher in low-tax countries for MNEs. Not for domestic firms (Tørsløv et al. 2018).

- Annual global tax loss of $500–650 billion (Crivelli 2016; Cobham and Janský 2018).

- Almost 40% of FDIs were not related to any real activity in 2017 (Damgaard et al. 2019).
Findings (macroeconomic statistics)

- Capital flight from developing countries of $150-200B in 2010 and $172B in 2014 (Henry 2012; Spanjers and Salomon 2017).
- Around $7.6T held in unrecorded wealth by individuals in tax havens in 2014 (Zucman 2015).
- Pre-tax profits to wages ratios are substantially higher in low-tax countries for MNEs. Not for domestic firms (Tørsløv et al. 2018).
- Annual global tax loss of $500–650 billion (Crivelli 2016; Cobham and Janský 2018).
- Almost 40% of FDIs were not related to any real activity in 2017 (Damgaard et al. 2019).
Findings (macroeconomic statistics)

- Capital flight from developing countries of $150-200B in 2010 and $172B in 2014 (Henry 2012; Spanjers and Salomon 2017).

- Around $7.6T held in unrecorded wealth by individuals in tax havens in 2014 (Zucman 2015).

- Pre-tax profits to wages ratios are substantially higher in low-tax countries for MNEs. Not for domestic firms (Tørsløv et al. 2018).

- Annual global tax loss of $500–650 billion (Crivelli 2016; Cobham and Janský 2018).

- Almost 40% of FDIs were not related to any real activity in 2017 (Damgaard et al. 2019).
Findings (macroeconomic statistics)

- Capital flight from developing countries of $150-200B in 2010 and $172B in 2014 (Henry 2012; Spanjers and Salomon 2017).

- Around $7.6T held in unrecorded wealth by individuals in tax havens in 2014 (Zucman 2015).

- Pre-tax profits to wages ratios are substantially higher in low-tax countries for MNEs. Not for domestic firms (Tørsløv et al. 2018).

- Annual global tax loss of $500–650 billion (Crivelli 2016; Cobham and Janský 2018).

- Almost 40% of FDIs were not related to any real activity in 2017 (Damgaard et al. 2019).
Findings (intra-firm profit shifting)

- Semi-elasticity of profitability relative to the CTR gap ranges between -1.3 to -0.8 (Huizinga and Laeven 2008; Heckemeyer and Overesch 2017; Beer et al. 2019).

- Less-developed countries more exposed to profit shifting (Fuest et al. 2011; Johannesen et al. 2019).

- ‘Zero-profit-firms’ account for a substantial part of profit shifting estimates (Bilicka 2019; Johannesen et al. 2019).

- In line with high fixed costs of setting up a tax-optimizing scheme, profit shifting is concentrated among a few large MNEs (Davies et al. 2018; Wier and Reynolds 2018).

- Transfer mispricing is of similar magnitude in South Africa as advanced economies (Wier 2020), whereas debt shifting is more pronounced in developing countries (Fuest et al. 2011).
Findings (intra-firm profit shifting)

- Semi-elasticity of profitability relative to the CTR gap ranges between -1.3 to -0.8 (Huizinga and Laeven 2008; Heckemeyer and Overesch 2017; Beer et al. 2019).

- Less-developed countries more exposed to profit shifting (Fuest et al. 2011; Johannesen et al. 2019).

- ‘Zero-profit-firms’ account for a substantial part of profit shifting estimates (Bilicka 2019; Johannesen et al. 2019).

- In line with high fixed costs of setting up a tax-optimizing scheme, profit shifting is concentrated among a few large MNEs (Davies et al. 2018; Wier and Reynolds 2018).

- Transfer mispricing is of similar magnitude in South Africa as advanced economies (Wier 2020), whereas debt shifting is more pronounced in developing countries (Fuest et al. 2011).
Findings (intra-firm profit shifting)

• Semi-elasticity of profitability relative to the CTR gap ranges between -1.3 to -0.8 (Huizinga and Laeven 2008; Heckemeyer and Overesch 2017; Beer et al. 2019).

• Less-developed countries more exposed to profit shifting (Fuest et al. 2011; Johannesen et al. 2019).

• ‘Zero-profit-firms’ account for a substantial part of profit shifting estimates (Bilicka 2019; Johannesen et al. 2019).

• In line with high fixed costs of setting up a tax-optimizing scheme, profit shifting is concentrated among a few large MNEs (Davies et al. 2018; Wier and Reynolds 2018).

• Transfer mispricing is of similar magnitude in South Africa as advanced economies (Wier 2020), whereas debt shifting is more pronounced in developing countries (Fuest et al. 2011).
Findings (intra-firm profit shifting)

- Semi-elasticity of profitability relative to the CTR gap ranges between -1.3 to -0.8 (Huizinga and Laeven 2008; Heckemeyer and Overesch 2017; Beer et al. 2019).

- Less-developed countries more exposed to profit shifting (Fuest et al. 2011; Johannesen et al. 2019).

- ‘Zero-profit-firms’ account for a substantial part of profit shifting estimates (Bilicka 2019; Johannesen et al. 2019).

- In line with high fixed costs of setting up a tax-optimizing scheme, profit shifting is concentrated among a few large MNEs (Davies et al. 2018; Wier and Reynolds 2018).

- Transfer mispricing is of similar magnitude in South Africa as advanced economies (Wier 2020), whereas debt shifting is more pronounced in developing countries (Fuest et al. 2011).
Findings (intra-firm profit shifting)

• Semi-elasticity of profitability relative to the CTR gap ranges between -1.3 to -0.8 (Huizinga and Laeven 2008; Heckemeyer and Overesch 2017; Beer et al. 2019).

• Less-developed countries more exposed to profit shifting (Fuest et al. 2011; Johannesen et al. 2019).

• ‘Zero-profit-firms’ account for a substantial part of profit shifting estimates (Bilicka 2019; Johannesen et al. 2019).

• In line with high fixed costs of setting up a tax-optimizing scheme, profit shifting is concentrated among a few large MNEs (Davies et al. 2018; Wier and Reynolds 2018).

• Transfer mispricing is of similar magnitude in South Africa as advanced economies (Wier 2020), whereas debt shifting is more pronounced in developing countries (Fuest et al. 2011).
Findings (other approaches)

- Rent seeking following windfall gains in the oil industry and aid disbursements (Andersen et al. 2017; Andersen et al. 2020).
- Tax haven secrecy services are of high value to firms (O'Donovan et al. 2019).
- Following wealth tax reforms, individuals in Colombia hid assets in tax haven entities (Londoño-Vélez and Ávila-Mahecha 2018).
- Studies on anti-IFF legislation based exclusively on high-income countries. These include: 1) thin-capitalization rules (Overesch and Wamser 2010; Buettner et al. 2012); 2) transfer pricing regulation (Lohse and Riedel 2013; Beer and Loeprick 2015); 3) controlled foreign corporation rules (Egger and Wamser 2015; Clifford 2019); 4) Mandatory disclosure of tax payments (Johannesen and Larsen 2016); and 5) information exchange treaties (Johannesen and Zucman 2014; Menkhoff and Miethe 2019).
Findings (other approaches)

- Rent seeking following windfall gains in the oil industry and aid disbursements (Andersen et al. 2017; Andersen et al. 2020).
- Tax haven secrecy services are of high value to firms (O’Donovan et al. 2019).
- Following wealth tax reforms, individuals in Colombia hid assets in tax haven entities (Londoño-Vélez and Ávila-Mahecha 2018).
- Studies on anti-IFF legislation based exclusively on high-income countries. These include: 1) thin-capitalization rules (Overesch and Wamser 2010; Buettner et al. 2012); 2) transfer pricing regulation (Lohse and Riedel 2013; Beer and Loeprick 2015); 3) controlled foreign corporation rules (Egger and Wamser 2015; Clifford 2019); 4) Mandatory disclosure of tax payments (Johannesen and Larsen 2016); and 5) information exchange treaties (Johannesen and Zucman 2014; Menkhoff and Miethe 2019).
Findings (other approaches)

- Rent seeking following windfall gains in the oil industry and aid disbursements (Andersen et al. 2017; Andersen et al. 2020).
- Tax haven secrecy services are of high value to firms (O’Donovan et al. 2019).
- Following wealth tax reforms, individuals in Colombia hid assets in tax haven entities (Londoño-Vélez and Ávila-Mahecha 2018).
- Studies on anti-IFF legislation based exclusively on high-income countries. These include: 1) thin-capitalization rules (Overesch and Wamser 2010; Buettner et al. 2012); 2) transfer pricing regulation (Lohse and Riedel 2013; Beer and Loeprick 2015); 3) controlled foreign corporation rules (Egger and Wamser 2015; Clifford 2019); 4) Mandatory disclosure of tax payments (Johannesen and Larsen 2016); and 5) information exchange treaties (Johannesen and Zucman 2014; Menkhoff and Miethe 2019).
Findings (other approaches)

- Rent seeking following windfall gains in the oil industry and aid disbursements (Andersen et al. 2017; Andersen et al. 2020).
- Tax haven secrecy services are of high value to firms (O’Donovan et al. 2019).
- Following wealth tax reforms, individuals in Colombia hid assets in tax haven entities (Londoño-Vélez and Ávila-Mahecha 2018).
- Studies on anti-IFF legislation based exclusively on high-income countries. These include: 1) thin-capitalization rules (Overesch and Wamser 2010; Buettner et al. 2012); 2) transfer pricing regulation (Lohse and Riedel 2013; Beer and Loeprick 2015); 3) controlled foreign corporation rules (Egger and Wamser 2015; Clifford 2019); 4) Mandatory disclosure of tax payments (Johannesen and Larsen 2016); and 5) information exchange treaties (Johannesen and Zucman 2014; Menkhoff and Miethe 2019).
Suggestions for future work

• Indirect and direct evidence of profit shifting in the Global South. Further, how to tax MNEs?

• Effects of anti-IFF legislation and information exchange treaties in the Global South.

• Effects of improving capacity of tax authorities, and in particular, evaluating different types of technical assistance.

• Advance on the precision of shipping and insurance costs to improve validity of the trade misinvoicing methodology.

• Meta-analysis of the tax semi-elasticity in which the validity of each estimate is scrutinized rather than included automatically.

• The review paper further includes an overview of relevant data sources and examples of studies applying them.
Suggestions for future work

• Indirect and direct evidence of profit shifting in the Global South. Further, how to tax MNEs?

• Effects of anti-IFF legislation and information exchange treaties in the Global South.

• Effects of improving capacity of tax authorities, and in particular, evaluating different types of technical assistance.

• Advance on the precision of shipping and insurance costs to improve validity of the trade misinvoicing methodology.

• Meta-analysis of the tax semi-elasticity in which the validity of each estimate is scrutinized rather than included automatically.

• The review paper further includes an overview of relevant data sources and examples of studies applying them.
Suggestions for future work

- Indirect and direct evidence of profit shifting in the Global South. Further, how to tax MNEs?
- Effects of anti-IFF legislation and information exchange treaties in the Global South.
- Effects of improving capacity of tax authorities, and in particular, evaluating different types of technical assistance.
- Advance on the precision of shipping and insurance costs to improve validity of the trade misinvoicing methodology.
- Meta-analysis of the tax semi-elasticity in which the validity of each estimate is scrutinized rather than included automatically.
- The review paper further includes an overview of relevant data sources and examples of studies applying them.
Suggestions for future work

• Indirect and direct evidence of profit shifting in the Global South. Further, how to tax MNEs?

• Effects of anti-IFF legislation and information exchange treaties in the Global South.

• Effects of improving capacity of tax authorities, and in particular, evaluating different types of technical assistance.

• Advance on the precision of shipping and insurance costs to improve validity of the trade misinvoicing methodology.

• Meta-analysis of the tax semi-elasticity in which the validity of each estimate is scrutinized rather than included automatically.

• The review paper further includes an overview of relevant data sources and examples of studies applying them.
Suggestions for future work

• Indirect and direct evidence of profit shifting in the Global South. Further, how to tax MNEs?

• Effects of anti-IFF legislation and information exchange treaties in the Global South.

• Effects of improving capacity of tax authorities, and in particular, evaluating different types of technical assistance.

• Advance on the precision of shipping and insurance costs to improve validity of the trade misinvoicing methodology.

• Meta-analysis of the tax semi-elasticity in which the validity of each estimate is scrutinized rather than included automatically.

• The review paper further includes an overview of relevant data sources and examples of studies applying them.
Suggestions for future work

- Indirect and direct evidence of profit shifting in the Global South. Further, how to tax MNEs?
- Effects of anti-IFF legislation and information exchange treaties in the Global South.
- Effects of improving capacity of tax authorities, and in particular, evaluating different types of technical assistance.
- Advance on the precision of shipping and insurance costs to improve validity of the trade misinvoicing methodology.
- Meta-analysis of the tax semi-elasticity in which the validity of each estimate is scrutinized rather than included automatically.
- The review paper further includes an overview of relevant data sources and examples of studies applying them.
Conclusion

- No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.
- Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.
- Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.
- Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.
- Ample evidence of profit shifting by large MNEs.
- Countries in the Global South are more exposed to IFFs.
- Vast scope for future research, in particular focusing on the Global South.
Conclusion

• No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.

• Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.

• Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.

• Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.

• Ample evidence of profit shifting by large MNEs.

• Countries in the Global South are more exposed to IFFs.

• Vast scope for future research, in particular focusing on the Global South.
Conclusion

• No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.

• Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.

• Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.

• Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.

• Ample evidence of profit shifting by large MNEs.

• Countries in the Global South are more exposed to IFFs.

• Vast scope for future research, in particular focusing on the Global South.
Conclusion

• No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.

• Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.

• Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.

• Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.

• Ample evidence of profit shifting by large MNEs.

• Countries in the Global South are more exposed to IFFs.

• Vast scope for future research, in particular focusing on the Global South.
Conclusion

• No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.

• Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.

• Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.

• Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.

• Ample evidence of profit shifting by large MNEs.

• Countries in the Global South are more exposed to IFFs.

• Vast scope for future research, in particular focusing on the Global South.
Conclusion

- No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.
- Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.
- Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.
- Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.
- Ample evidence of profit shifting by large MNEs.
- Countries in the Global South are more exposed to IFFs.
- Vast scope for future research, in particular focusing on the Global South.
Conclusion

• No consensus on the IFF concept. I prefer a broad concept in order to follow the definition and avoid downplaying the issue.

• Studies measuring the extent of IFFs by individuals rely heavily on macroeconomic statistics.

• Macroeconomic statistics also used to fathom the extent of profit shifting by MNEs and ‘phantom FDIs’.

• Despite heavy media attention, I argue estimates based on trade misinvoicing method are too imprecise to report.

• Ample evidence of profit shifting by large MNEs.

• Countries in the Global South are more exposed to IFFs.

• Vast scope for future research, in particular focusing on the Global South.
References I


References III


References V


References VII


References VIII


References IX


References X


References XI


References XII