Methodological Guidelines

Bojan NASTAV
Conceptual framework

• Financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders.
Illegal vs illicit

**Boundaries of aggressive tax planning**

- Using tax provisions in the spirit of the law
- Rearrange international flow to avoid repatriation taxes
- Reallocate the tax base to a lower-tax country
- Reduce the base via a double deduction or double non-taxation
- Illegal measures, e.g. non-disclosure of income

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Source: Institute for Advanced Studies (2017)
Selecting methods

- Econometric vs statistical approach
- Comprehensive, comparable, applicable

Criteria for selection:
- Soundness of methods
- Source data
- Results
Suggested methods

B Aggressive tax avoidance

- Profit shifting
- Offshore wealth
- Misinvoicing

A Illegal commercial and tax practices
Suggested methods

B Aggressive tax avoidance

Units within an MNE group

MNEs vs comparable non-MNEs

Partner Country Method (PCM) +

Price Filter Method (PFM) +

Profit shifting

#3

#4

Offshore wealth

#5

#6

Undeclared offshore assets

Offshore financial wealth

Misinvoicing

#1

#2

A Illegal commercial and tax practices
Guidance to national authorities

- IFF risk assessment
- Mapping of agencies
- Data availability
- Operational definition
- Tier classification of methods
- Compilation and dissemination
- Recommendations
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Source: FATF (2013).
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CASE STUDY
Quality and availability of indicators related to illicit financial flows in Nigeria

Source: UNECA briefing on the pilot mission with Nigeria.
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Tax and commercial illicit financial flows
Guidance to national authorities

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Tier classification of methods

• Three tiers
  – Tier 1: Preferred method
  – Tier 2: Fallback option
  – Tier 3: Last resort
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- SDG reporting requirements
- Fundamental Principles of Official Statistics
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- Recommendations
Conference on IFFs and Debt amidst the Covid-19 Pandemic
Measurement of IFFs and Policy Interventions

23 March 2021