Washington, Nov. 4 (Bloomberg) -- U.S. companies and individuals avoided more than $50 billion in taxes last year by falsely reporting prices for imports and exports, according to a study that says the practice may be helping terrorists.

Toilet paper from China was declared to be worth $1,873 a pound, and prefabricated buildings valued at $1.20 each went to Trinidad, according to finance professors John Zdanowicz and Simon Pak, who are advising the Treasury Department.

“Most of it is companies and individuals moving money for illicit or illegal purposes, including tax evasion and perhaps terrorist financing,” said Zdanowicz, who teaches at Florida International University in Miami.

More than $150 billion in taxable income was shifted outside the U.S. through overpayment for imported goods and undercharging for exports, the study said. The practice has accelerated in recent years as taxpayers looked for alternatives to loopholes that are being closed worldwide, the study said.

The cost to the U.S. Treasury has almost doubled since 1992, the first year that the pair began analyzing the data, and has risen almost 20 percent since 2000, said Zdanowicz and Pak, who teaches at Pennsylvania State University-Great Valley.

The figure is likely to rise even faster now that the Patriot Act, passed by Congress earlier this year to help fight terrorism, has given government broad new surveillance powers related to financial transactions, Zdanowicz said.

“The government has shut down the front door to moving money offshore, but they've left the back door wide open: the trade account,” Zdanowicz said.

Little Scrutiny
The chances of government scrutiny are slim, Zdanowicz said. U.S. Customs Service figures that were used in the study detail neither the companies nor the individuals behind each transaction.

“There are 54.9 million transaction each year, and no one can expect Treasury or Customs or the IRS to look at every one of them,” he said.

Congress has given Zdanowicz and Pak a $2 million grant to serve as consultants to the Treasury Department, and Zdanowicz said they'll urge Customs and Internal Revenue Service to use sophisticated screening software developed by the two to look for the anomalies.

Dean Boyd, a spokesman for Customs, said the agency has been doing this kind of work for more than a decade, after having collaborated with the two professors from the beginning.

“We set up our program and it finds a lots of these anomalies, then we drill down,” he said. “In some cases it's turned out to be nothing. In others, we've found large-scale money laundering. Since Sept. 11, we've turned our attention to stopping terrorist financing from moving this way.”

Spending to Comply

Bill Reinsch, a former Commerce Department official who's now president of the National Foreign Trade Council, which represents exporters ranging from Boeing Co. to Microsoft Corp., said he isn't aware of violators.

“I certainly know of no companies engaging in this scurrilous practice,” he said. “Most companies spend considerable amounts of their resources to ensure they comply with the pricing systems.”

People may also be using the transactions to earn income in countries where the currency has a higher value and avoid domestic taxes, Zdanowicz said.

A person in Argentina, where the economy has shrunk more than 15 percent this year and the peso has lost almost three quarters of its value, may buy emeralds there, sell
them to an associate in the U.S. for a penny on the dollar, and reap the full profit when the gems are resold in the U.S.

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