MIAMI, Fla. – (November 1, 2002) – The United States government lost more than $53 billion in tax revenues in 2001 – more than $145.5 million per day – due to artificial overpricing and underpricing of products entering and leaving the country according to the results released today from an in-depth computer analysis conducted by Florida International University finance professor, John Zdanowicz, Ph.D. and Penn State University finance professor, Simon Pak, Ph.D. Because it allows them to shift profits abroad, a number of individuals and firms engage in abnormal international trade pricing to avoid or reduce U.S. tax liability.

Japan tops the list of countries with the highest amount of estimated U.S. tax losses due to abnormal trade pricing in 2001. Trade with other countries that resulted in large U.S. tax losses include Canada, Germany and Mexico. Examples of abnormally priced transactions discovered include: cotton dishtowels imported from Pakistan for $153.72 each; rubies imported from Burma for $38.192 per carat; battery-powered smoke detectors imported from Germany for $3,500 each; bulldozers exported to Colombia for $1,742 each, and Missile/Rocket Launchers exported to Israel for $52.03 each.

Through this research, Zdanowicz and Pak found that tax revenue lost through abnormal pricing in international trade is increasing. Using the same research methodology, their 2000 estimate of lost tax revenues was $44.55 billion.

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According to Zdanowicz, losses in U.S. tax revenues will continue to be a growing problem due to increased tax evasion and money laundering activities being facilitated by false invoicing in international trade.

“Criminals and tax evaders have discovered that laundering money through the banking system is dangerous especially with the new financial institution reporting requirements under the recently enacted Patriots Act,” Zdanowicz said. “However, moving money is virtually undetectable in international trade. Some companies avoid taxes by moving their corporate headquarters off-shore. Manipulating their international trade prices allows them to remain in the U.S., but move their taxable income off-shore. And, unfortunately, law enforcement agencies do not have the capability to examine every U.S. trade transaction.”

The FIU and Penn State researchers began analyzing U.S. trade figures eight years ago after reading that then presidential candidate Bill Clinton predicted the government would lose $45 billion in corporate income taxes during the four year period between 1992 and 1995 due to international transfer pricing manipulations. Clinton argued during his first presidential campaign that the federal government could help reduce the national deficit by actively pursuing corporate tax cheats. The FIU professor's research demonstrates that Clinton's economists greatly underestimated the extent of the problem.

Zdanowicz and Pak have developed and perfected the computer software necessary to analyze every U.S. trade transaction contained in the U.S. Department of Commerce Merchandise Trade database and detect every abnormally priced import and export transaction. In their study, they assumed that import and export prices were abnormal if they deviated above or below the interquartile range of all prices, as defined in the 1994 "Intercompany Transfer Pricing Regulations Under Section 482" of the Internal Revenue service tax code. They also assumed that every dollar of taxable income shifted out of the United States would have been taxed at 34 percent.

Senator Byron L. Dorgan (D-North Dakota) included $2 million in the 2002 Treasury-General Government Appropriations bill to expand the study to help determine policies that will allow the Internal Revenue Service to collect taxes due, but avoided under abnormal (more)
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pricing schemes. The legislation was signed into law by President Bush. Drs. Zdanowicz and Pak are the Principle Investigators for the study.

For specific study details, please see the attached executive summary. For more information or an interview, call FIU Professor John Zdanowicz at (305) 348-2771.

Florida International University’s College of Business Administration (CBA), South Florida’s business education leader with unique expertise in international business and information technology (IT), is the second largest of FIU’s professional schools, enrolling approximately 3,400 undergraduate and more than 1,100 graduate students each year. It also is South Florida’s top-rated business research school and one of only 424 business schools in the world accredited by the AACSB International—The Association to Advance Collegiate Schools of Business. The College’s Alvah H. Chapman, Jr., Graduate School of Business offers the 6th largest part-time MBA program among this group, and its IT faculty has been ranked among the top 20 (11th) in the U.S. in terms of research productivity. Its Executive MBA program was ranked at or near the top in a recent Executive MBA Council study and U.S. News and World Report (October 15, 2001) ranked its Global Executive MBA program among the top 25 best online MBA programs. The August 23, 2002 issue of America Economia, a premier pan-regional business journal, rated the Chapman School among the top 50 international MBA schools for Latin American students in a global ranking. Hispanic Business (March 2002) ranked the CBA among the top five business schools for Hispanics. It also is one of only 30 business schools to have received a Department of Education grant to establish and support an international business center.

For additional information about the CBA and the Chapman School, please call Assistant Dean Sally Gallion, (305) 348-6631.

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