RENOWNED INTERNATIONAL TRADE PRICING RESEARCH TEAM SIMON PAK AND JOHN ZDANOWICZ AWARDED $2 MILLION GRANT TO EXPAND WORK

President Bush Signs Appropriations Bill Appointing Team as Principal Investigators

MIAMI, Fla. – (Nov. 21, 2001) – The 2002 Treasury-General Government Appropriations bill just signed into law by President Bush has designated Professors Simon J. Pak, Ph.D. and John S. Zdanowicz, Ph.D. as principal investigators and awarded them a $2 million grant to continue their work in uncovering international pricing schemes – schemes which cost the U. S. Treasury $45 billion in income tax revenues in 2000. The research grant was included in the bill by Sen. Byron L. Dorgan (D-ND).

According to Dorgan, he included $2 million in the 2002 Treasury-General Government Appropriations bill to expand the study and to help Drs. Pak and Zdanowicz build on their previous work, which will help determine policies that will allow the Internal Revenue Service to collect taxes due, but avoided under such pricing schemes.

Zdanowicz is a professor at Florida International University’s (FIU) College of Business Administration (CBA). In January, Pak will be assuming the position of associate professor at Penn State University. Together, they have conducted studies on international pricing schemes since 1992.

The practice of abnormal international trade pricing shifts profits and enables individuals and firms to avoid or reduce their U.S. tax liability. From toothbrushes (more)
imported from the United Kingdom for $5,655 each and flash lights imported from Japan for $5,000 each to diamonds exported to Belgium for $3.08 a carat and bulldozers exported to Mexico for $528 each, Pak and Zdanowicz’ studies uncovered numerous commodities that were abnormally priced.

“If these suspicious transactions were investigated by the Internal Revenue Service, a significant amount of lost tax revenue could be collected,” Zdanowicz said.

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.

“Tax evaders and criminals know that their activities are virtually undetectable because government agencies do not have the capability to analyze every U.S. Trade transaction,” he said.

Among the 230 countries that trade with the United States, Canada tops the list with more than $44.5 million in tax losses. Trade with other countries that resulted in large U.S. tax losses include Japan, Mexico, United Kingdom and Germany.

“It appears that tax revenues lost through abnormal pricing in international trade continues to increase,” said Pak. “Using the same research methodology, our 1998 estimate of lost tax revenues was $35.7 billion and our 1999 estimate of lost tax revenues was $42.7 billion.”

Pak added that the lost tax revenue estimate is conservative because the researchers only analyzed quantifiable commodities.

“If we assume the same proportion of over- and under-invoicing for the commodities that do not specify quantities, our estimated tax loss would be significantly higher,” he said.

In their study, the researchers determined that import and export prices were abnormal if they deviated significantly above or below the pricing norms or the inter-quartile range, which is specified by IRS tax code. They also assumed that every dollar of taxable income shifted out of the United States would have been taxed at 34 percent. Their research is based on the U.S. import and export data produced by the U.S. Department of Commerce, Bureau of Census, the same database used to determine the U.S. balance of trade.

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Pak and Zdanowicz have developed and perfected the computer software necessary to analyze every U.S. trade transaction contained in the U.S. Department of Commerce’s “Merchandise Trade” database. In March, they will launch a web site through their consulting firm, Trade Research Institute, Inc., which will provide price range analysis for all commodities traded by the U.S. with every country.

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 12 professional schools, enrolling approximately 3,800 undergraduate and more than 900 graduate students each year. It also is South Florida’s top-rated business research school and one of only 405 business schools in the world accredited by the AACSB International—The Association to Advance Collegiate School of Business. The College offers the 8th-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. The September 13, 2001, issue of America Economía, a premier Pan-regional business journal published by Dow Jones, listed the College of Business Administration at FIU among the top 50 business schools from around the world for Latin American business students. Its Executive MBA and full-time International MBA programs were ranked at or near the top in recent Executive MBA Council and AACSB International benchmarking studies respectively. It is one of only 28 business schools to have received a Department of Education grant to establish and support an international business center.

For additional information about the College, please call Assistant Dean Sally Gallion, (305) 348-6631.

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