

## EXECUTIVE SUMMARY

TRADE-BASED TAX EVASION AND MONEY LAUNDERING – 2003 to 2014

BY

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### ABSTRACT

Recently the United States Treasury Department enacted new rules in an attempt to make it more difficult for U.S. companies to move their addresses outside the country to reduce income tax expenses, clamping down on the practice known as income tax inversions. In an attempt to maximize firm value, companies have been moving their legal headquarters through mergers to low tax countries. However, companies do not have to move their headquarters to low tax countries to evade U.S. taxes. They can accomplish the same objective by shifting their taxable income to low tax jurisdictions. This can be facilitated by abnormally priced transactions with a foreign subsidiary or a colluding partner in a low tax foreign country. A U.S. company or individual can shift taxable income out of the U.S. by importing products from a subsidiary or colluding partner at extremely high prices, thus decreasing its tax obligation and moving money out of the U.S., undetected. A U.S. company or individual can also shift taxable income out of the U.S. by exporting products to a subsidiary or colluding partner at extremely low prices. False invoicing is also used by criminals to move the proceeds of illegal activities out of the U.S., undetected. The objective of this study was to determine the impact of over-invoiced imports and under-invoiced exports on the amount of money moved out of the U.S. during 2003 through 2014. The evaluation of every import transaction and every export transaction for every product and every country, during 2003 through 2014 resulted in a movement of \$2.314 Trillion Dollars out of the United States.

## Objective

The objective of this research is to calculate the impact of over-invoiced imports and under-invoiced exports on U.S. federal taxable income during the period from 2003 through 2014. The inclusion of over-invoiced imports and under-invoiced exports in business or individual tax returns artificially lowers taxable income and federal income tax liability. This research determines the estimate of lost taxable income due to abnormal international trade pricing for 2003 to 2014 and is based on pricing norms, (interquartile range), as specified in the section 482 regulations of the Internal Revenue Service tax code. A portion of the amount of money moved out of the United States during this period may also be due to money laundering of the proceeds of money derived from criminal activities.

## Data

This research is based on the analysis of U.S. import and export data produced by the U.S. Department of Commerce, Bureau of Census, and contained in the U.S. Merchandise trade database. This is the same database used to determine the U.S. balance of trade. It is assumed that the U.S. Treasury, U.S. Customs Bureau, and the U.S. Department of Commerce maintain a quality control system to minimize errors and produce and sell accurate data.

## Methodology - Summary

1. For each year from 2003 to 2014, the median price, lower quartile export price and the upper quartile import price for every product exported to and imported from every country in the world, was calculated. (During 2014, there were 18,327 import product codes and 9,083 export product codes. There were 239 countries that traded with the United States in the same year.)
2. Every import transaction price was determined and compared to the country specific import upper quartile price for every product to determine if it was over-valued. The dollar amount of over-valuation for every import transaction was determined.
3. Every export transaction price was determined and compared to the country specific export lower quartile price for every product to determine if it was under-valued. The dollar amount of under-valuation for every export transaction was determined.
4. The dollar value impact on the cost of goods sold due to the over-valuation for every import transaction was determined. The dollar value impact on sales revenue due to under-valuation for every export transaction was also determined.
5. The dollar value impact of over-stated cost of goods sold and under-stated sales revenues on taxable income was determined for every year from 2003 to 2014.

**TABLE 1: TOTAL MONEY MOVED OUT OF THE UNITED STATES: 2003-2014**

<b>Year</b>	<b>Under-Valued Exports</b>	<b>Over-Valued Imports</b>	<b>Total Moved Out of the US</b>
2003	\$118,652,916,956	\$49,664,465,955	\$168,317,382,911
2004	\$111,593,487,257	\$56,167,170,400	\$167,760,657,657
2005	\$129,141,799,287	\$62,806,778,514	\$191,948,577,801
2006	\$119,755,537,632	\$69,297,773,741	\$189,053,311,373
2007	\$94,166,413,168	\$80,081,220,087	\$174,247,633,255
2008	\$109,298,632,681	\$89,433,034,390	\$198,731,667,071
2009	\$84,969,676,924	\$69,888,788,685	\$154,858,465,609
2010	\$112,732,188,667	\$77,957,195,834	\$190,689,384,502
2011	\$123,140,716,302	\$89,966,476,588	\$213,107,192,891
2012	\$118,898,299,754	\$97,290,377,964	\$216,188,677,718
2013	\$124,116,420,714	\$94,796,135,280	\$218,912,555,994
2014	\$128,344,311,131	\$102,231,668,766	\$230,575,979,896
<b>Total</b>	<b>\$1,374,810,400,473</b>	<b>\$939,581,086,204</b>	<b>\$2,314,391,486,678</b>

6. The total amount of money moved out of the United States during the period from 2003 to 2014 was 2.314 trillion dollars. (See Table 1) The amount of money moved out of the United States by top 28 countries during 2014 is contained in Table 2.

**TABLE 2: TOTAL MONEY MOVED OUT OF THE UNITED STATES BY COUNTRY  
(TOP 28)  
(THROUGH UNDER-VALUED EXPORTS AND OVER-VALUED IMPORTS) Year: 2014**

UNDER-VALUED EXPORTS	OVER-VALUED IMPORTS	TOTAL MOVED OUT OF THE US	SHARE OF TRADE
\$128,344,311,131	\$102,231,668,766	\$230,575,979,896	5.81%

	COUNTRY	UNDER-VALUED EXPORTS	OVER-VALUED IMPORTS	TOTAL MOVED OUT OF THE US	SHARE OF TRADE
1	CHINA	\$9,250,311,349	\$22,401,602,001	\$31,651,913,350	5.36%
2	CANADA	\$12,539,330,277	\$12,067,134,965	\$24,606,465,243	3.74%
3	MEXICO	\$10,733,420,336	\$6,611,820,487	\$17,345,240,823	3.25%
4	JAPAN	\$7,701,157,147	\$7,348,857,894	\$15,050,015,041	7.49%
5	GERMANY	\$6,668,766,251	\$8,346,615,251	\$15,015,381,502	8.70%
6	KOR REP	\$5,828,161,748	\$3,952,363,174	\$9,780,524,921	8.57%
7	U KING	\$5,953,051,315	\$3,433,333,474	\$9,386,384,789	8.70%
8	FRANCE	\$3,440,994,887	\$2,992,155,474	\$6,433,150,361	8.23%
9	INDIA	\$3,030,008,745	\$3,231,363,469	\$6,261,372,213	9.37%
10	TAIWAN	\$4,056,753,538	\$2,083,266,950	\$6,140,020,488	9.11%
11	NETHLDS	\$3,145,719,642	\$2,624,072,173	\$5,769,791,815	8.95%
12	ITALY	\$2,393,006,035	\$2,857,382,381	\$5,250,388,416	8.89%
13	IRELAND	\$991,349,880	\$4,168,204,991	\$5,159,554,871	12.36%
14	SINGAPR	\$4,129,409,670	\$936,898,724	\$5,066,308,394	10.78%
15	SWITZLD	\$1,730,792,202	\$2,226,697,587	\$3,957,489,788	7.35%
16	BRAZIL	\$3,138,479,063	\$629,734,822	\$3,768,213,885	5.18%
17	BELGIUM	\$2,361,606,506	\$1,374,201,738	\$3,735,808,244	6.70%
18	ISRAEL	\$2,625,191,323	\$1,106,154,722	\$3,731,346,045	9.79%
19	MALAYSA	\$1,804,218,878	\$1,904,486,680	\$3,708,705,558	8.51%
20	HG KONG	\$3,071,384,888	\$252,091,202	\$3,323,476,089	7.12%
21	THAILND	\$1,539,396,566	\$903,173,216	\$2,442,569,782	6.28%
22	AUSTRAL	\$1,971,835,291	\$308,180,064	\$2,280,015,355	6.11%
23	SPAIN	\$1,286,629,895	\$835,622,376	\$2,122,252,271	8.66%
24	S ARAB	\$1,761,095,368	\$318,694,311	\$2,079,789,678	3.16%
25	CHILE	\$1,694,172,159	\$168,863,425	\$1,863,035,583	7.13%
26	ARAB EM	\$1,785,376,352	\$37,455,539	\$1,822,831,890	7.32%
27	VIETNAM	\$770,516,010	\$982,260,071	\$1,752,776,081	4.83%
28	COLOMB	\$1,468,731,100	\$241,857,131	\$1,710,588,231	4.44%

## Examples of Abnormal Transactions

In tables 3 and 4 are some examples of abnormally priced transactions that are contained in the U.S. Merchandise Trade Database. The author has observed thousands of abnormally priced transactions in all U.S. Customs Districts and with all countries in the world.

## Discussion

The author believes this study is a conservative estimate of money moved out of the United States due to abnormal international trade pricing for the following reasons:

1. This study only analyzed quantifiable products that have units of measure such as kilograms, tons, units, etc. Some of the product codes in the U.S. trade data base require dollar values to be entered on the trade documents but do not require the quantities of the units of measure. In 2014, for example, the export codes database has 991 product codes with no units of measure defined and the import codes database has 1,486. This study determined the implied price of a transaction by dividing the dollar value of a transaction by the quantity of the transaction. Without quantities, the implied transaction prices cannot be determined. The results of this study did not consider the transactions of products that did not have quantity amounts in the trade data base. If it is assumed that the same proportion of over and under invoicing for the products that do not specify quantities, the estimated amount of money moved out of the United States would be significantly higher.
2. This study uses the interquartile range as specified by the IRS 482 regulations to determine abnormality. The author determined the magnitude of over or under pricing by comparing the stated prices to the interquartile prices. According to IRS code, abnormal prices would be adjusted back to the median price. This adjustment would have significantly increased the amount of money moved out of the United States.
3. There is no sampling error in this study. This study analyzed the total population of transactions in the United States Trade Data Base. In 2014 there were 5,791,845 export records containing 37,419,935 transactions. During the same period there were 6,948,196 import records containing 72,386,000 transactions. This study analyzed every export and import transaction in 2014 as well as every transaction in the years 2003 to 2013.
4. This study only evaluated the impact of abnormal product prices. It does not take into account money moved out of the United States due to the abnormal pricing of services and intangibles.

**TABLE 3: ABNORMALLY HIGH U.S. IMPORT PRICES**

Human Blood	Ireland	\$ 240,568.56/kg
Diamonds – Unworked	South Africa	\$ 452,380.95/car
Armored Fighting Vehicles	Canada	\$ 759,143.00/unit
Camshafts	Mexico	\$ 7,707.53/unit
Sapphires – Not Set	Belgium	\$ 45,212.77/car
Backhoes	Germany	\$ 2,487,110.33/unit
Smart Cards – Recorded	Mexico	\$ 160.00/unit
Vitamin E	Ireland	\$ 30,334.36/kg
Emeralds – Not Set	Colombia	\$ 10,704.29/car
Wood Doors and Frames	Canada	\$ 3,100.39/unit
Bulldozers – Used Rebuilt	Japan	\$ 458,571.43/unit
Cabin Cruisers	China	\$ 5,000,000/unit
Raw Cane Sugar	Dominican Rep	\$ 5.95/kg
Lithium Storage Batteries	Japan	\$ 1,425.73/unit
Rubies – Not Set	Mozambique	\$ 100,000/car
Brooms	China	\$ 61.37/unit
Diamonds – Unworked	Botswana	\$ 4,878.33/car
Laser Printers	Japan	\$ 57,531.50/unit
Lead Acid Storage Batteries	China	\$ 281.76/unit
Emeralds – Not Set	Belgium	\$ 57,307.18/car
Non Industrial Diamonds	Switzerland	\$ 174,771.88/car
Video Projectors – Color	Japan	\$ 29,125.75/unit
Sapphires- Cut Not Set	UK	\$ 81,120.81/car
Single Line Telephone Sets	China	\$ 146.32/unit
Non Industrial Diamonds	Arab Emirates	\$ 82,682.36/car

**TABLE 4: ABNORMALLY LOW U.S. EXPORT PRICES**

Prepared Explosives	Mexico	\$ .50/kg
Ink Cartridges	Japan	\$ 2.01/unit
Human Blood Plasma	UK	\$ 1.00/kg
Firearms	Ecuador	\$ 19.38/unit
Armored Fighting Vehicles	Afghanistan	\$ 7,080.22/unit
Wrist Watches – Gold	China	\$ 33.01/unit
New Herringbone Tires	Peru	\$ 17.29/unit
Yachts	Italy	\$ 7,731.22/unit
Guided Missiles	Saudi Arabia	\$ 30,247.66/unit
Military Rifles	Mexico	\$ 300.00/unit
Venetian Blinds	Bahrain	\$ 5.00/unit
Camshafts	Mauritania	\$ 5.80/unit
Potatoes	Canada	\$ .13/kg
Prefabricated Buildings – Metal	Vietnam	\$ 50.78/unit
Ladders – Steel	Mexico	\$ .15/unit
Smart Cards – Recorded	China	\$ .10/unit
Lead Acid Storage Batteries	Germany	\$ 3.14/unit
Spark Plugs	Arab Emirates	\$ 1.44/hundred
Burglar Alarms – Electric	Bulgaria	\$ 1.91/unit
Smart Cards – Unrecorded	Argentina	\$ .05/unit
Contact Lens	Korea Republic	\$ .47/unit
Radial Tires – New	Australia	\$ 26.79/unit
Military Rifles	Peru	\$ 299.94/unit
Non Industrial Diamonds	Mexico	\$ 3.87/car
Smart Cards – Unrecorded	Ecuador	\$ 1.02/unit
Storage Batteries	Canada	\$ 5.91/unit