Study shows corporations manipulate export-import prices to avoid taxes

By JIM ABRAMS
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WASHINGTON (AP) -- Buying lawnmower blades from Australia for $2,326 each or selling ATM machines to France for $97 apiece might seem overly generous to America's trading partners. But a study released Friday found corporations using such implausible pricing last year to avoid paying $53 billion in U.S. taxes.

Under the practice known as transfer pricing, corporations move income out of the United States and into the hands of foreign affiliates, effectively putting profits out of reach of the Internal Revenue Service. In addition to being a means to evade taxes, such pricing schemes are common to criminal money laundering operations.

Tax losses from price manipulation rose from nearly $45 billion in 2000 and $35.7 billion in 1998, said finance professors Simon J. Pak of Pennsylvania State University Great Valley and John S. Zdanowicz of Florida International University, who have been studying the issue for more than a decade.

The two professors said in the study that their tax loss estimates were probably conservative because they only analyzed commodities that could be identified by measures such as kilograms, tons or units. If non-quantifiable goods were included, "our estimated tax loss would be significantly higher," they said.

"This is a very aggressive area of tax abuse," said Sen. Byron Dorgan, D-N.D., chairman of the Appropriations Committee subcommittee that oversees the Treasury Department. Dorgan secured a $2 million grant in this year's budget for the researchers, saying he hoped to "convince the Treasury Department and the IRS to get serious" about the issue.

Treasury Department spokeswoman Michele Davis said, "We're looking at all the complexities in the tax code that provide incentives for people to conduct transactions that minimize their tax burden."

The Organization for International Investment, a Washington-based trade group representing U.S. subsidiaries of foreign companies, questioned the Pak-Zdanowicz study, saying investigations by the IRS and other federal entities have found no credible evidence that transfer pricing is costing the United States billions of dollars. "Are there bizarre anecdotes?"

Sure. Is the IRS catching these cases? Yes," the group said.

Under the scheme, a U.S. company buys a product at an inflated price from an overseas subsidiary, keeping the money within the corporation while vastly reducing its taxable profit in the United States. Similarly, a manufacturer can write off losses from selling a product overseas at an undervalued price, while the profits are retained by the overseas partner.
Among overvalued imports were cotton dish towels from Pakistan at $153 each, tweezers from Japan at $4,896 a unit and plastic buckets from the Czech Republic at $973 each. Undervalued exports included missile launchers sold to Israel for $52 a unit, clinical thermometers sold to Germany for 6 cents each, and bus and truck radial tires sold to Britain for $11.74 each.

Japan led other trading partners, accounting for $12.2 billion in lost U.S. taxes due to transfer pricing in 2001, followed by Canada with almost $5 billion and Germany with $4.6 billion.

U.S. Customs Service spokesman Dean Boyd said his agency has for more than a decade been tracking transfer pricing used not only to avoid taxes but also to launder money. "This type of overvaluation and undervaluation is certainly something we have to be concerned about," he said.

Boyd said that since Sept. 11 the Customs Service's Numerically Integrated Profiling System has also been used to investigate terrorism financing. He said importing gold into the country at vastly inflated prices is "an easy way to export funds from the United States," but that many other commodities, including licorice roots, have been used to launder money.

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