



# Fostering change: tax-motivated illicit financial flows

## *Study and recommendations*

Platform for Tax Good Governance meeting 29 February 2024

*DG INTPA: [Anca-Maria.Szigeti@ec.europa.eu](mailto:Anca-Maria.Szigeti@ec.europa.eu)*

# Purpose of the independent study on TIFFs



Shed light on the complex realm of Illicit Financial Flows (IFFs) and especially Tax-Motivated Illicit Financial Flows (TIFFs)



Review the main challenges faced by Africa in tackling IFFs



Provide an overview of efforts to combat IFFs and TIFFs in Africa



Suggest ways to enhance or bolster assistance to African partners in addressing Tax-Motivated Illicit Financial Flows (TIFFs)

# Methodological approach

**32 interviews** with relevant stakeholders from multilateral organisations (UN, OECD, IMF, WB), pan-African organisations (AUC, ATAF, CoDA), CSOs, academic experts and business leaders, as well as EU member states, Commission services and EU agencies (EUROPOL, European Prosecution Office).

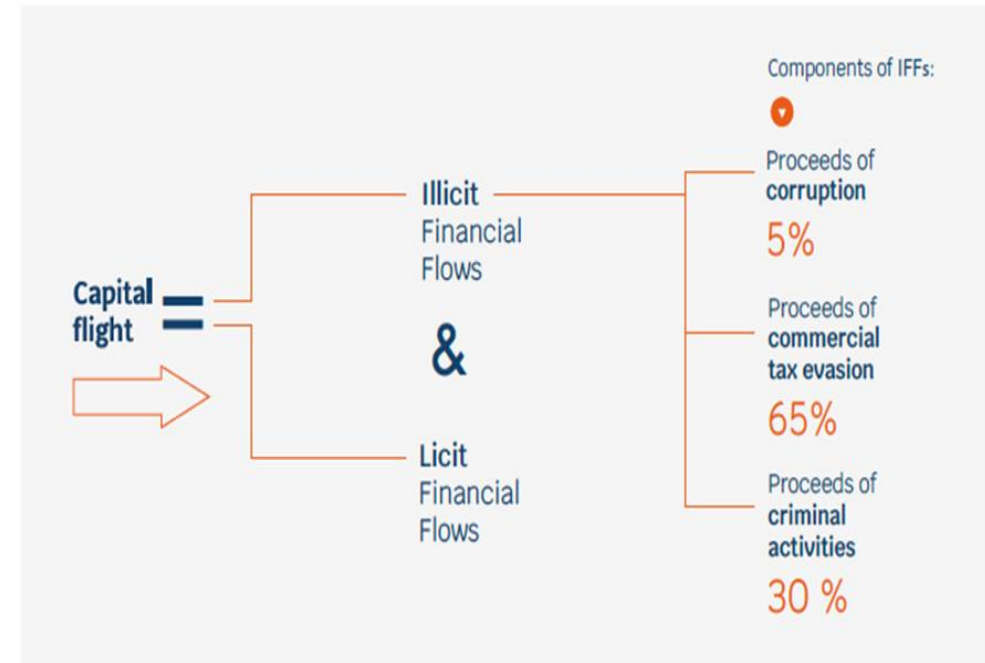
**Pilot and case studies, literature review** to understand the existing landscape, challenges, and potential solutions;

EC Steering Group – policy coherence through participation of DG INTPA, TAXUD (taxation and customs), NEAR, JRC, MARE and EU Delegations.

# What are IFFs?

- One of the earliest definitions of IFFs, developed by GFI, states that they occur when *monies, funds or flows are illegally earned, transferred, or utilised*.
- Somewhere at its origin, movement, or use, the money broke laws and hence it is considered illicit.
- The Thabo Mbeki High Level Panel Report on IFFs (2015) determined that IFFs are made up of three components, namely:
  - ✓ **commercial activities** arising from business-related activities (such as hiding wealth, evading or avoiding tax or base erosion and profit shifting practices);
  - ✓ **criminal activities** (drug trafficking, human trafficking, arms dealing, money laundering, etc.).
  - ✓ **Corruption** (bribery).

FIGURE 2: MAIN COMPONENTS OF ILLICIT FINANCIAL FLOWS



Source: Kar and Cartwright-Smith, 2010

# To understand IFFs and TIFFs it's necessary to understand tax evasion, tax avoidance and tax planning

TAX PLANNING	TAX AVOIDANCE	TAX EVASION
<ul style="list-style-type: none"> <li>Legal</li> </ul>	<ul style="list-style-type: none"> <li>Illegitimate</li> </ul>	<ul style="list-style-type: none"> <li>Illegal</li> </ul>
<ul style="list-style-type: none"> <li>Ethical</li> </ul>	<ul style="list-style-type: none"> <li>Unethical</li> </ul>	<ul style="list-style-type: none"> <li>Unethical</li> </ul>
<ul style="list-style-type: none"> <li>Complies with the spirit and letter of the law</li> </ul>	<ul style="list-style-type: none"> <li>Complies with the letter of the law but not the spirit of the law</li> </ul>	<ul style="list-style-type: none"> <li>Does not comply with the spirit nor the letter of the law</li> </ul>
<ul style="list-style-type: none"> <li>No intention to defeat the legal spirit of the law</li> </ul>	<ul style="list-style-type: none"> <li>Takes advantage and benefits from the loopholes in the law</li> </ul>	<ul style="list-style-type: none"> <li>Misstatement and falsification of accounts, incomes and expenses</li> </ul>
<ul style="list-style-type: none"> <li>No litigation in courts</li> </ul>	<ul style="list-style-type: none"> <li>Leads to litigation in courts</li> </ul>	<ul style="list-style-type: none"> <li>Leads to litigation in courts</li> </ul>
<ul style="list-style-type: none"> <li>No penalty or prosecution</li> </ul>	<ul style="list-style-type: none"> <li>May attract penalty or prosecution</li> </ul>	<ul style="list-style-type: none"> <li>Attracts penalty or prosecution</li> </ul>
<ul style="list-style-type: none"> <li>Good for national and socio-economic development, creating employment, contributing to growth etc.</li> </ul>	<ul style="list-style-type: none"> <li>Probability that it does not benefit national and socio-economic development in the domestic economy (where the tax is avoided)</li> </ul>	<ul style="list-style-type: none"> <li>It does not benefit national and socio-economic development in the domestic economy (where the tax is evaded)</li> </ul>
<ul style="list-style-type: none"> <li>Promotes professionalism and strengthens economic and political situation</li> </ul>	<ul style="list-style-type: none"> <li>Encourages bribery and weakens economic and political situation</li> </ul>	<ul style="list-style-type: none"> <li>Encourages bribery and weakens economic and political situation</li> </ul>
<ul style="list-style-type: none"> <li>Planning before tax liability arises</li> </ul>	<ul style="list-style-type: none"> <li>Planning for avoidance before tax liability arises</li> </ul>	<ul style="list-style-type: none"> <li>Involves avoidance of payment of tax after the liability of tax has occurred</li> </ul>

# Narrow vs Broad Definition of IFFs

- ▶ At the heart of the debate on IFFs and TIFFs definitions lies the inclusion of illicit elements or tax avoidance.
- ▶ Policy-wise, tackling tax avoidance is as urgent as addressing tax evasion in the fight against IFFs.



# Narrow vs broad definitions of TIFFS– pros and cons

	NARROW DEFINITION	BROAD DEFINITION
Concepts included in the definition	Tax evasion only	Tax evasion and tax avoidance
<b>Implications and Considerations: Advantages</b>	<ul style="list-style-type: none"> <li>• <b>Clarity and Focus:</b> This definition offers clarity by targeting illegal tax evasion activities, simplifying the implementation of punitive measures.</li> <li>• <b>Simplified and Easier Enforcement:</b> Focusing on tax evasion streamlines law enforcement efforts as it centres on clear violations of existing tax laws. Since these are illegal, they are easier to enforce and prosecute by tax, customs and other law enforcement authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Comprehensive Scope:</b> This definition encompasses both tax avoidance and tax evasion, acknowledging the multifaceted nature of TIFFs. Necessitates defining the terms clearly and addressing them under different work streams.</li> <li>• <b>Global Cooperation:</b> Implementing this definition necessitates international cooperation, due to the cross-border nature of TIFFs.</li> <li>• <b>Leading by example:</b> The EU could use the broader definition, with a view to have a clearer and more comprehensive EU policy stance against all forms of tax abuse.</li> <li>• <b>Challenges in measurement:</b> Tax avoidance is a crucial issue that must be accounted for, but its measurement poses significant challenges.</li> </ul>
<b>Implications and Considerations: Limitations</b>	<ul style="list-style-type: none"> <li>• <b>Limited Scope:</b> This narrower definition excludes tax avoidance missing some practices that erode tax revenues, erode the base and shift profits.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Challenges in Enforcement:</b> Country governments and competent authorities do not have adequate tools to enforce effectively the illegitimate activities.</li> </ul>

# A developmental approach to IFFs

Promotion of a *broad definition*, including tax avoidance



- Awareness raising
- Leading by example
- Comprehensive scope
- Coherence with partners
- Accounts for transnational aspects



- Challenges in enforcement linked to the difficulty of identifying and addressing tax avoidance practices.

# The scale of Tax Motivated IFFs

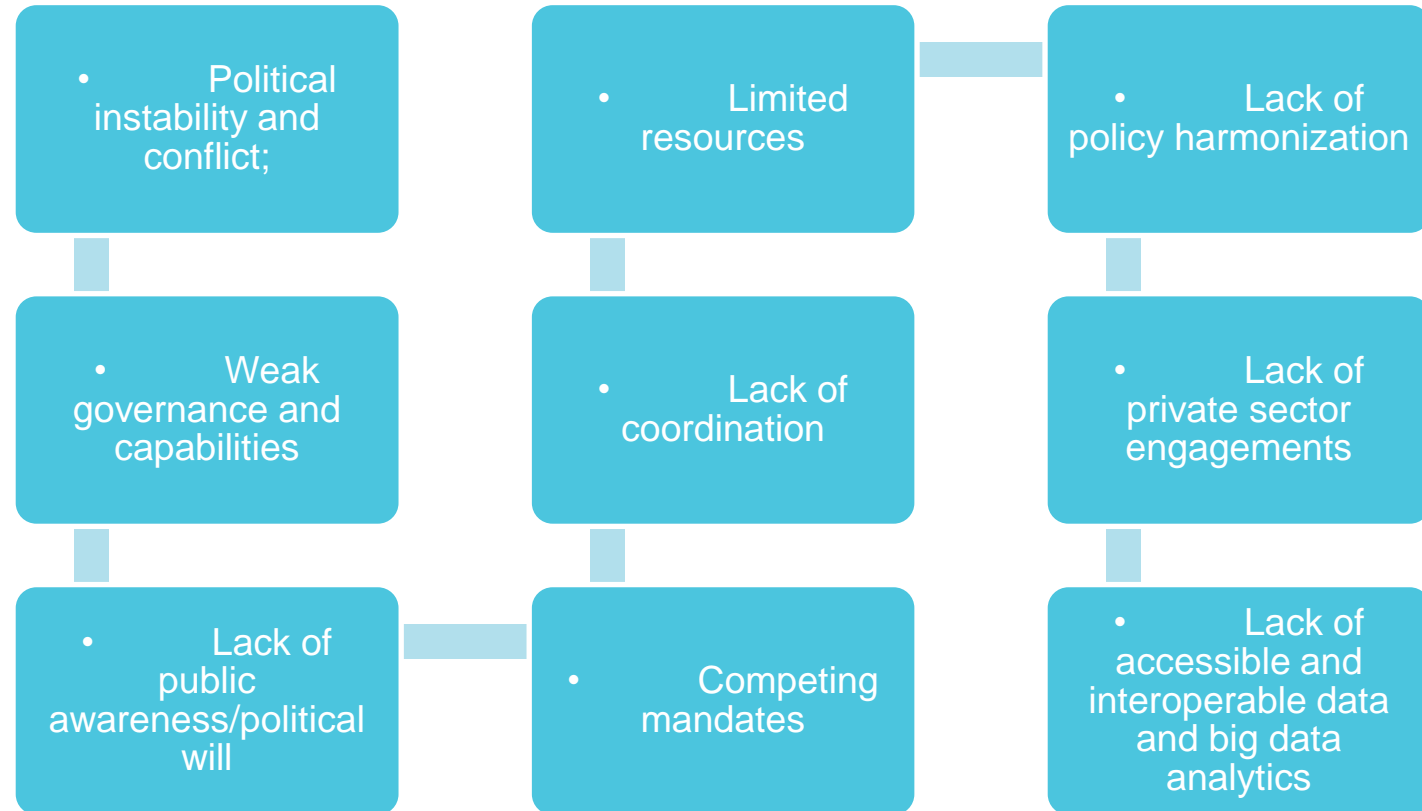
## Measuring TIFFs

- Data capacity challenges
- UNCTAD 2020: IFFs in Africa are estimated at USD 88.6 billion per annum, with TIFFs accounting for between **USD 30 and 50 billion**
- Of these, trade misinvoicing represents the primary channel for TIFFs

## Impact of TIFFs

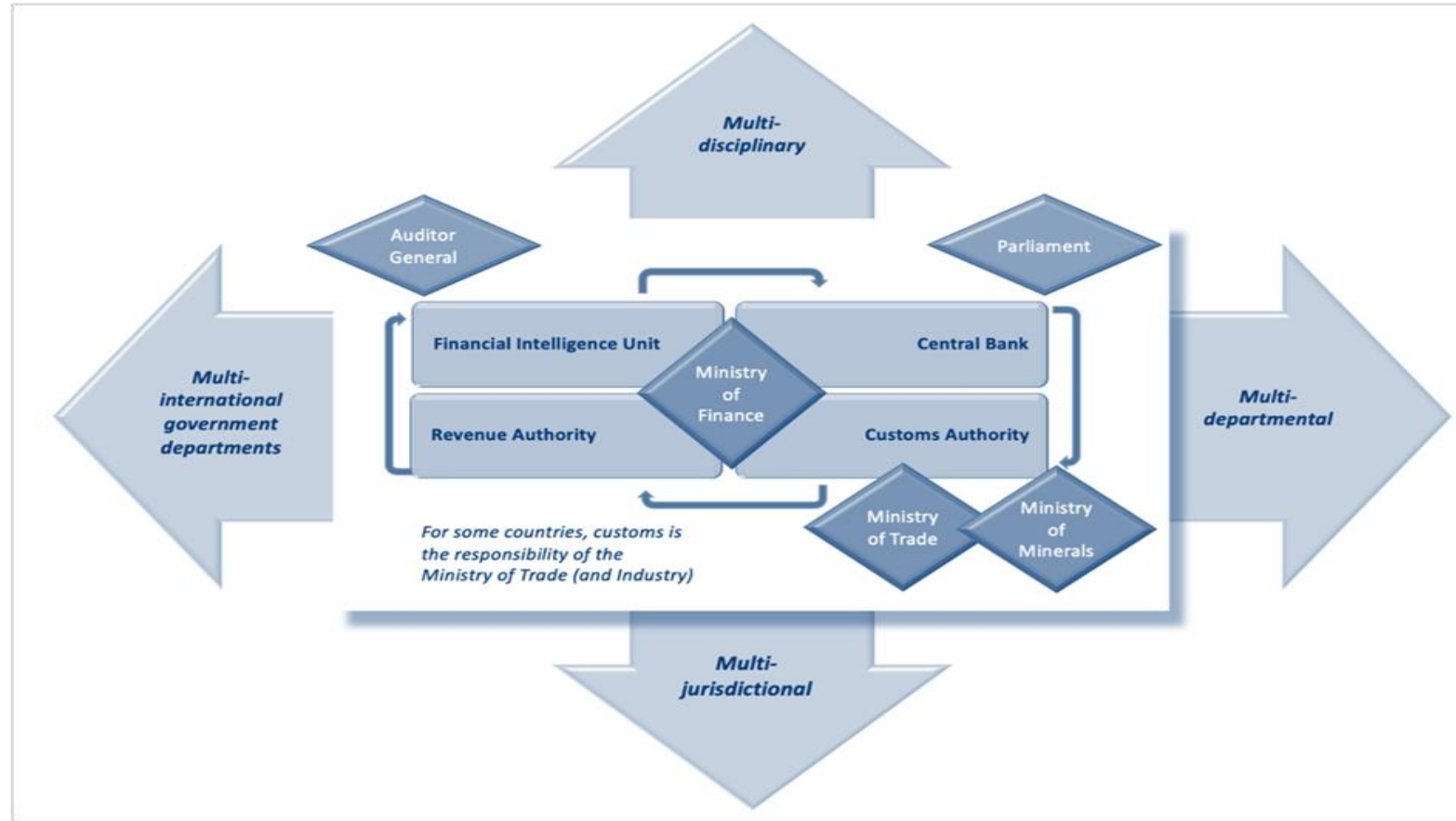
- Lead to revenue losses
- Weaken democratic institutions
- Decrease private investments
- Escalate inequalities
- Intertwined with grand corruption

# Main challenges faced by Africa in addressing TIFFs



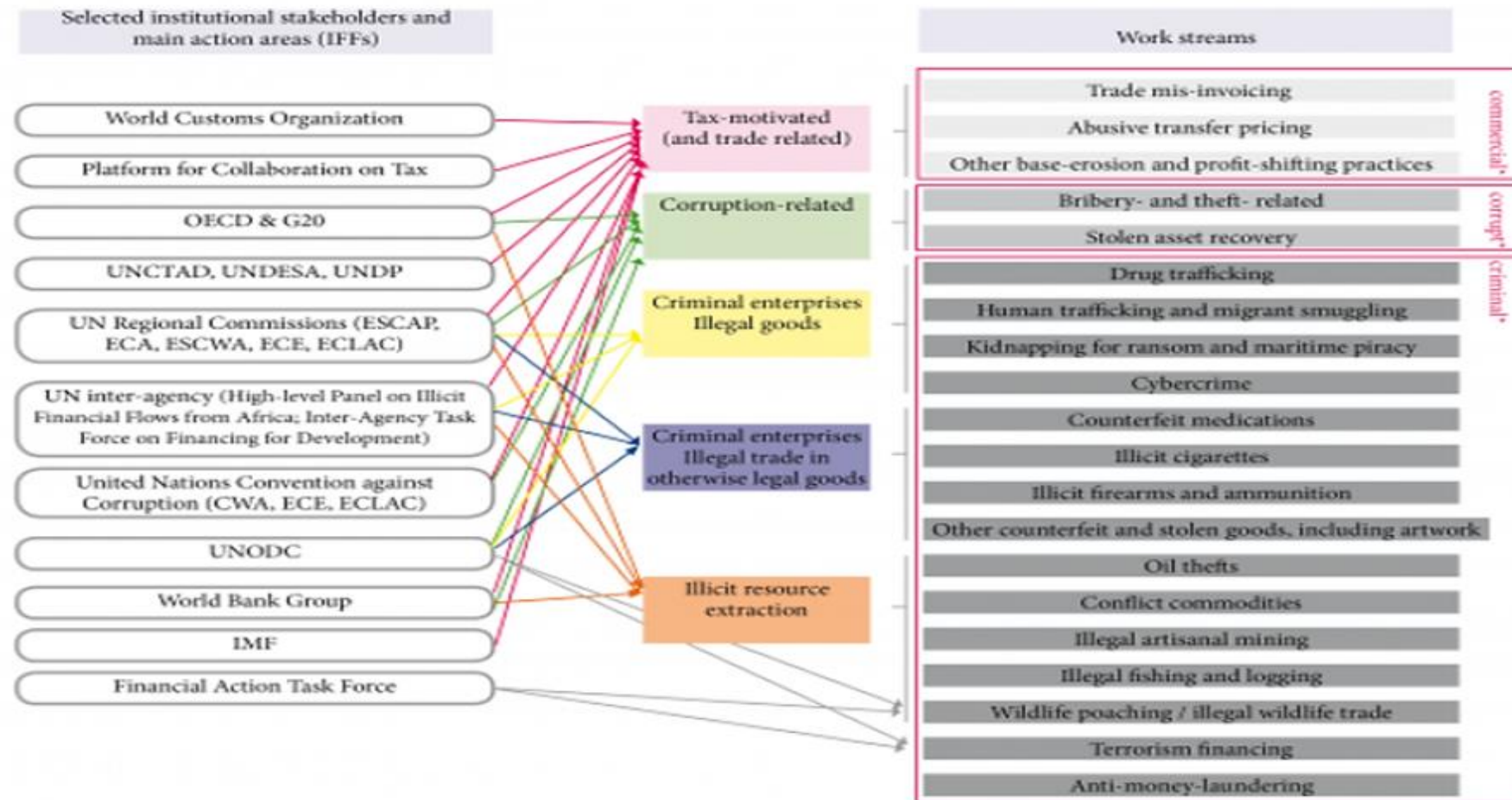
# A Multifaceted Approach: requires integrating disciplines, government agencies and international organizations

source: this study



# Tackling IFFs: an endeavour involving multiple actors and work streams

Source: Musselli and Bürgi Bonanomi (2020).



# EU Interventions



## Global interventions at policy level

- Anti-tax avoidance directive
- Anti-money laundering directives



## Global support to partner countries

- “Collect More, Spend Better” approach developed and implemented by the EC
- Addis Tax Initiative Declaration 2025 endorsed by the EC on behalf of the EU



## Examples of EU supported initiatives

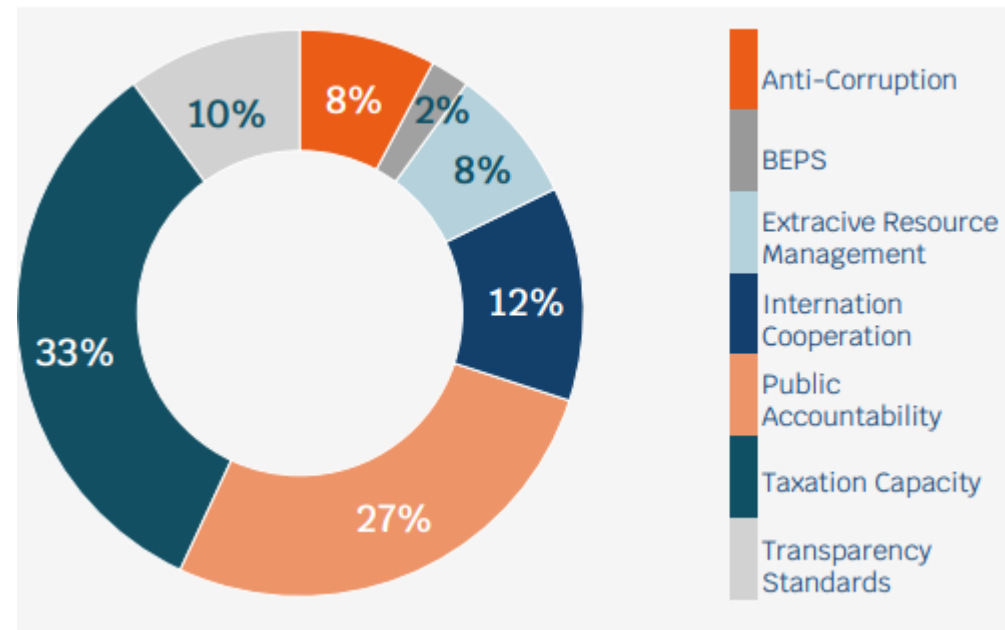
- Donor support in partnership with the African Union
- Fiscal Transition Support Programme in West Africa
- Team Europe Initiative on Combatting IFFs and transnational organized crime in Sub-Saharan Africa

# TEI: Combatting IFFs and related Transnational Organised Crime in Africa

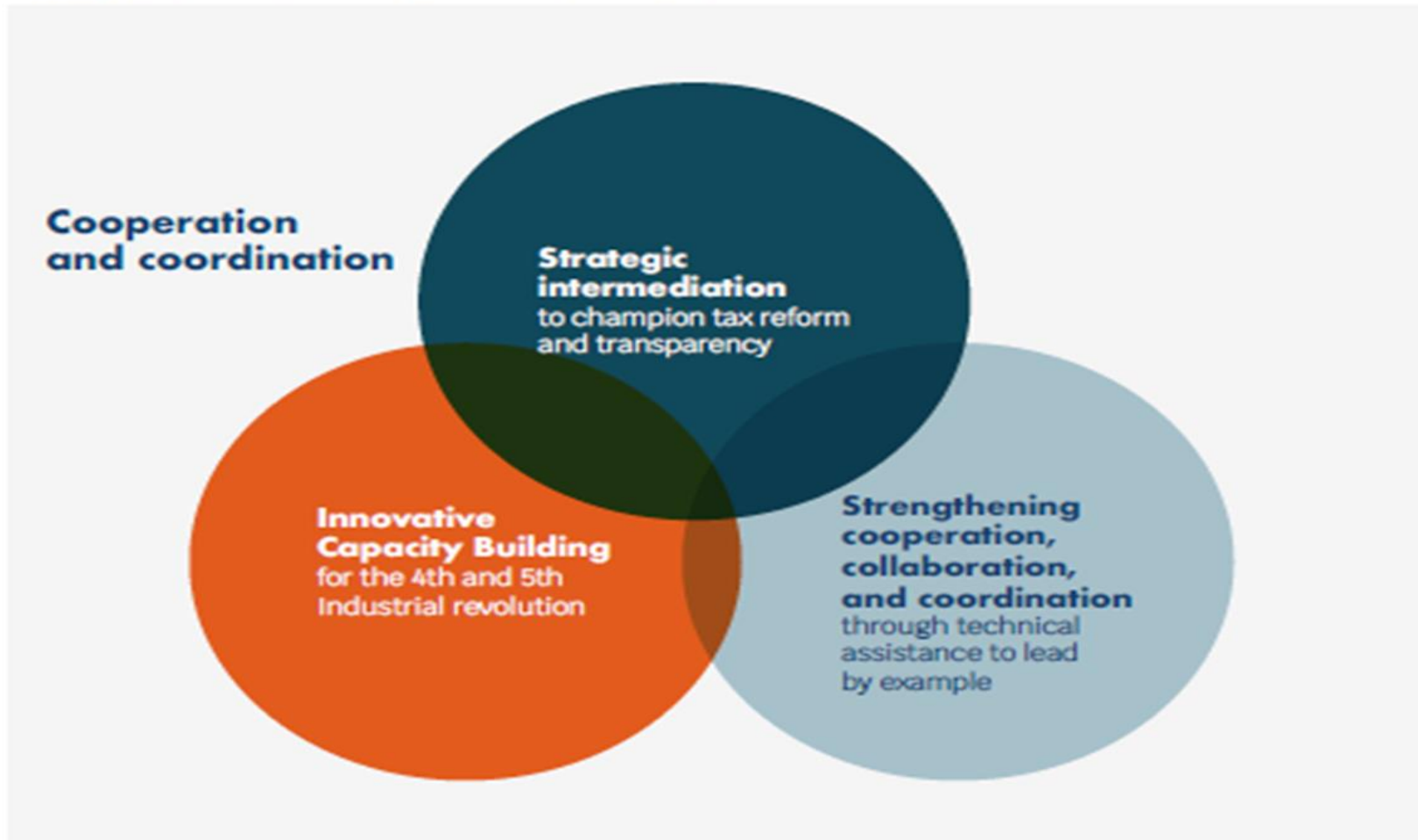
- 76 projects & more than EUR 450 million

## Objectives

- Improve and harmonize institutional, legislative and regulatory frameworks
- Enhance Law Enforcement, prosecutorial and judicial capacities, and capabilities
- Improve coordination and information sharing



# Study recommendations



# Strategic intermediation to champion tax reform and transparency



Engagement with the UN tax reform process at a global level



Close collaboration with the AUC for effective implementation of continental strategy to tackle TIFFs.



Assess the feasibility of developing a partnerships with WCO, AU, UNECA, and other multilaterals for strategic customs interventions.



Assess the feasibility of automatic exchange of information on vessels between port authorities at international level

# Strengthening cooperation, collaboration and coordination



Enhance EU support for the further development and implementation of the BEPS Inclusive Framework, including the 2-pillar solution of OECD



Advance the transparency agenda, including the automatic exchange of information and beneficial ownership (BO) registers.



Encourage cooperation between financial regulatory authorities, tax agencies, and law enforcement bodies to harmonize AML measures with tax compliance efforts



Assist countries in strengthening their capacity for effective recovery of assets from TIFFs

# Innovative capacity building: leveraging data and technology to Combat IFFs

1

Enhancing digitalization of tax and customs' systems

2

Promoting integrity and transparency to combat corruption and illicit financial flows

Thank you for your attention!

Study can be found [HERE](#)



© European Union 2023

Unless otherwise noted the reuse of this presentation is authorised under the [CC BY 4.0](#) license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.

Slide **xx: element concerned**, source: [e.g. Fotolia.com](#); Slide **xx: element concerned**, source: [e.g. iStock.com](#)