Discussion

of

„International Profit Shifting within Multinationals: A Multi-Country Perspective“
„Capital Structure and International Debt Shifting“

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Profit Shifting (Huizinga/Laeven)

• How much profit shifting is there?
  – Grubert, Goodspeed und Swenson (1993)
  – Hines and Rice (1994): a one percentage point increase in the host country tax rate reduces reported EBIT of U.S. affiliates by some 3 percent.
  – Huizinga/Laeven: one point decrease in CT increases reported EBIT by some 1.4%
• Location and size of subsidiaries are assumed as given.
• Shifting cost (symmetrically) increase in the ratio (Shifted Profits/True Profits.)
• True profits are assumed to derive from a Cobb-Douglas Production function with identical factor shares across countries.
• Reported Profits / EBIT is regressed on variables that are thought to influence true profits and profit shifting.
Discussion

• Tax differential alone are not significant.
• Additional variation in shifting incentives is produced by variation in size.
Discussion

\[ \tau_k < \tau_i \]

Country k  \[ \begin{array}{c}
MNE1 \\
\text{\textcolor{red}{\textbf{MNE1}}} \\
\text{MNE2} \\
\end{array} \]

Country i  \[ \begin{array}{c}
\text{\textcolor{blue}{\textbf{Country i}}} \\
\end{array} \]
Discussion

- Simulations highly informative
  - In 1999 Germany may have lost a quarter of its tax base from multinationals.
• Potential Problems
  – Size may correlate with productivity
  – Reporting conventions: high-tax countries may have laxer reporting conventions and therefore lower reported income.

  Allowing for country clustering?

  – Even non-consolidated returns include foreign repatriated profits.
Discussion

- Possible cross check
  - Exploit panel data
  - Panel data may allow to reduce structure
  - Weichenrieder (2006): Ten percentage point reduction in home country tax rate reduces reported profitability of German (profitable) subsidiaries by half a percentage point.
Debt Shifting (Huizinga/Laeven/Nicodeme)

• Empirical results
  – An increase in the tax rate of the host country increases average debt to asset ratio by 1.8 percentage points (domestic effect).
• Previous estimates
  – Altshuler and Grubert (2003) consider a cross-section of US subsidiaries abroad: A 1 percentage point increase in the foreign tax rate is associated with an increase of roughly .4 percentage point in the debt to total asset ratio.
  – Desai, Foley, and Hines (2003): A 1 percentage point increase in the foreign corporate tax rate leads increases third-party debt by .25 percentage points internal borrowing by some .08 percentage points (FE-estimates).
Discussion


• Mintz/Weichenrieder (2005): 1 percentage point tax increase leads to an estimated 0.4 percentage point increase in the debt-asset ratio.

Effect is even more pronounced for wholly-owned firms.
Discussion

• Possible improvements
  – Non-linear effects.
  – Subsidiary fixed effects rather than parent fixed effects.
  – Clustering on country and firm level.
  – Inflation may be accompanied by a variable for interest cost.