Berichte aus der Volkswirtschaft

Matthias Dischinger

Multinational Enterprises and Corporate Taxation:

An Empirical Assessment of the Location of Assets, Profits and Debt

Shaker Verlag
Aachen 2010

Bibliographic information published by the Deutsche Nationalbibliothek
The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available in the Internet at http://dnb.d-nb.de.

Zugl.: München, Univ., Diss., 2010

Printed in Germany.

ISBN 978-3-8322-9079-5
ISSN 0945-1048

Shaker Verlag GmbH • P.O. BOX 101818 • D-52018 Aachen
Phone: 0049/2407/9596-0 • Telefax: 0049/2407/9596-9
Internet: www.shaker.de • e-mail: info@shaker.de

Conditional on locating in a particular country, multinational enterprises (MNEs) have the continuous choice of the size of investment and of the financial structure. Subsequently, conditional on these decisions, MNEs can decide the reallocation of realized profits among their affiliate locations worldwide by applying various tax avoidance strategies of income shifting. This doctoral thesis empirically assesses corporate tax effects on the location decision of MNEs' assets, profits and debt. Thereby, the aim is to analyze with a large database of European MNEs (AMADEUS) and with modern and sophisticated econometric methods that explicitly control for unobserved heterogeneity between multinational affiliates if corporate taxes and, more precisely, corporate tax rate differences between affiliates of MNEs are relevant on these two levels of decision and, if yes, to determine the extent of these tax effects.

The main conclusion of this doctoral thesis is that MNEs' corporate activity is significantly influenced by corporate taxation. The location of investments, of debt and of profits is affected by corporate tax rates as well as by tax rate differences within the multinational group. More precisely, on the one hand, MNEs minimize their global corporate tax liability by relocating profitable assets and also equity to countries with a relatively low corporate tax rate, while on the other hand, MNEs use strategies to avoid corporate taxes by shifting profit from high-tax to low-tax affiliates. This is inferred from numerous estimations using a large micro database of European MNEs for the years 1995 to 2006 (AMADEUS) and applying different specifications and econometric methods. The various panel regressions show an impact of corporate tax rates, as well as a robust impact of international tax differentials on multinational affiliates' level of intangible asset investment, rate of profitability, and degree of leverage.

With regards to research content, this book comprises four chapters which all exhibit an empirical focus. Three sections (Chapter 2, 3 and 5) mainly deal with empirical evidence of MNEs' profit shifting strategies to reduce their global corporate tax liability. Thereby, Chapter 2 provides evidence of profit shifting activities between an affiliate and its foreign parent firm. Chapter 3 analyzes corporate tax rate differences within the multinational group and the location of intangible assets. Chapter 5 studies profits shifting via the strategic allocation of debt and equity within the MNE (debt shifting) by estimating the responses of the debt-to-assets ratio to changes in the tax differential. One section (Chapter 4), however, analyzes the importance of the MNE's headquarters location versus the locations of their foreign subsidiaries in allocating profitable assets and profits within the MNE by comparing the profitability rates of parents with the rates of subsidiary firms. Furthermore, this chapter empirically provides various implications for public economics, like the impact on tax revenue or on firm's profit shifting behavior.

Each chapter of this book can be read separately apart from the others as each is designed as a stand-alone research project that also includes its own introduction and conclusions.