

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Jan Láznička
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	Withholding Tax Rate Elasticities of Foreign Direct Investment Outflows and Tax Revenue Consequences of Double Tax Treaties

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

Author himself describes three contributions of the paper:

1. Constructions of a very interesting dataset.
2. The attempt to analyze the effects of the double taxation treaties on FDI via directly estimating the withholding tax rate elasticities of dividend and interest outflows
3. The attempt to calculate potential losses due to double taxation treaties with the use of a modified methodology which takes the afore-mentioned elasticities into account.

I agree with this evaluation, although significant problems with the quality of available data imply that the reliability of the estimates is weaker. Especially the calculations of potential losses should be taken (and presented to the public) with substantial caution. The thesis (and the contrast between the effort made by the author and the data-related problems) also provides very good arguments to support future improvements in data collection focused on effects of double taxation treaties (DTT).

Methods

The author definitely invested a lot of time into creating his data. He also describes the procedures really meticulously. It really seems that the data are as good as one can get, however, that does not mean that they are ideal or at least reliable enough. The author is aware of many of the issues and openly admits several weaknesses of his data such as:

- Bilateral dividend and interest flows are estimated and they depend on a rather strong assumption (p. 16)
- Data on one of the key variables (withholding tax rates) were difficult to "check and pick" manually, therefore three different approaches were used (p. 18). Nevertheless, each of the approaches may lead to biases for some subgroups of countries, this might require robust methods.

One additional issue is not mentioned explicitly – the author also uses variables based on weighted average of withholding tax rates where the weights are based on the shares of other countries dividend and interest outflows (p. 20). Similar approaches to weighting can be risky as obviously actually observed outflows (weights) depend on the weighted variable. Paradoxically, the very same method used by the author to construct the estimates of the dividend and investment flows may inadvertently reduce the problems.

All in all, compared to other texts written by students, one must really admire the complexity of the author's approach to the "data creation".

The econometric sensitivity analysis is loosely derived from the logic of gravity models (p. 27), the econometric specification includes several versions of fixed effects (time-varying fixed effects, country-pair fixed effects) which follow the structure recommended for standard gravity model. The decision to use a gravity model seem so to be logical, but at the same time it might have been useful to explain

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Jan Lázníčka
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	Withholding Tax Rate Elasticities of Foreign Direct Investment Outflows and Tax Revenue Consequences of Double Tax Treaties

why the sensitivity to taxation differences should have a similar form as the sensitivity to trade costs. Wouldn't it be logical to expect e.g. threshold effects or hysteresis?

Due to the presence of many zeros in the dependent variable the author opted for the PPML estimator (p. 29) which has become almost the norm for gravity models. Several modified specifications which also include interaction terms were tested too (p. 30). Although the econometric specification is not derived from explicit micro-foundations, the author's explanation of its logic sounds logical and acceptable at this level although it might have been interesting to discuss also the role of endogeneity (countries with more intensive dividend flows may have a higher probability of a double taxation treaty (DTT)).

Literature

The literature reviewed and cited is relevant and up-to-date. Besides reviewing academic literature the paper provides also a basic overview of the main international treaties and principles relevant for double taxation (p. 4-6).

Manuscript form

There are relatively few typos in the manuscript, the text is structured logically and methodically. Some formulations may appear a bit cumbersome (especially when they include lengthy terms such as the withholding tax), but the overall impression is still very decent. Charts and tables fully meet the standard requirements, more detailed tables were logically moved to the appendix section of the paper.

Summary and suggested questions for the discussion during the defense:

The thesis definitely proves that the author is capable of a complex independent research activity which involved a rather ambitious approach to "data creation" as well as the use of econometric methodology adequate for the Master level.

Suggested questions:

1. Your results show that EU countries are both amongst those losing as well as amongst the countries which are on the recipient side. When comparing Tables 6.7 and 6.9, I wonder whether it would be difficult to compile a table of net effects. For instance Germany which is high in the ranking in Table 6.7 is also fairly high in Table 6.9. Such information might be relevant e.g. for a more precise description of differences between effects of the DTT on the investor countries and on the new member states. Have you attempted anything similar, or were there any relevant problems which would devalue such effort?

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Jan Lázníčka
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	Withholding Tax Rate Elasticities of Foreign Direct Investment Outflows and Tax Revenue Consequences of Double Tax Treaties

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	28
<i>Methods</i> (max. 30 points)	27
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	92
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: *Vilém Semerák*

DATE OF EVALUATION: *January 14th 2019*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F