

Report on Bachelor / Master Thesis

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

Student:	Tomáš Boukal
Advisor:	doc. Petr Janský, Ph.D.
Title of the thesis:	How Much in Taxes Do Multinational Enterprises Pay?

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

This thesis studies a critical question that has not yet been answered satisfyingly in the existing literature: How much money do multinationals pay in taxes to individual countries' governments? Tomáš builds on two existing approaches to answering this question and re-estimates both these approaches to arrive at updated results at the country level.

Contribution

Overall, I believe that Tomáš has written a thesis that clearly contributes to current literature. He has shown that he has a good understanding of the methodology that he replicates and a good command of the literature and data related to taxation of multinationals. Tomáš very well communicates the drawbacks and limitations of each approach and explains the choices and assumptions made therein. He ultimately provides new, relevant results that should interest the scientific community.

The analysis provided in Section 5, which is the only part where the author offers an original analysis (as opposed to a replication of previous approaches), could be improved. First, I believe it would be more appropriate to use effective rates, rather than statutory rates, as the independent variable. The author identifies the mechanism for the relationship that multinationals invest more when rates are lower, suggesting that effective rates should be what matters. Second, a more nuanced analysis could take as a dependent variable the actual FDI income rather than tax revenue as a GDP share because the mechanism is more complex for aggressive tax havens than what OLS can handle. Aggressive tax havens with zero or near-zero corporate income tax rates may still benefit from profits being reported in their countries – they may charge fixed fees for setting up affiliates, etc. Therefore, these tax havens derive the benefits of offering zero tax rates differently from corporate income tax revenues. Third, it is essential to keep in mind that this analysis only shows a correlation, not a causality (while causality is suggested by the sentence on p. 40: "To show what is the exact change of CIT rate on the size of foreign affiliates' tax contribution, we run a simple OLS regression model. "). The analysis is still meaningful even though it does not attempt to show causality, but it needs to be made clear. Fourth, the construction and inclusion of some of the independent variables seem arbitrary, and the mechanism is not clear. For example, the variable Large does not have a good explanation in the thesis of the mechanism through which it could affect tax revenue in an interaction term with the tax rate. Instead, I think it would be more appropriate to control for the population using a continuous variable. Fifth, the author speaks of a future possibility to use panel data for this analysis – but at least some of the approaches to construct the dependent variable should be usable already now to build panel data. For example, FDI data are available for the period starting in 2009.

I want to stress that what I suggest above are potential ways for future extensions of this analysis rather than criticism. The author recognizes the drawbacks, and the analysis itself is formally carried out correctly, despite its current limitations.

Report on Bachelor / Master Thesis

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

Student:	Tomáš Boukal
Advisor:	doc. Petr Janský, Ph.D.
Title of the thesis:	How Much in Taxes Do Multinational Enterprises Pay?

Methods

The main part of the thesis relies on replication of existing studies. Tomáš has shown that he is able to understand relatively complex methodologies on estimating missing profits using bilateral directional data on foreign direct investment income. These methods are sound and appropriate for the task at hand, given data limitations, which Tomáš well acknowledges in his thesis. In several places, Tomáš even improves on the existing approaches – for example by replacing the FDI income method's assumption of a 25% share of FAs by using data on effective tax rates; or by improving the country coverage and presenting all results at the country level. I appreciate the author's effort to illustrate the methodologies using schemes. However, some of these could have been made clearer (for example in the right-hand part of Table 3.1, where it is not clear to me what is the distinction between corporate share and foreign affiliate share; I would expect the FA share to be a subset of the corporate share, along with local companies' share).

Literature

I believe that this thesis's literature review is thorough and does not omit any important studies in the field. The comprehensive literature review is especially critical as this is a replication study. Still, Tomáš has managed to identify how he contributes to the cited literature.

Manuscript form

The text is well-structured and follows the standards of a scientific article. This is important, and I would like to stress that this thesis does much better in this aspect than the average thesis defended at our Institute. While some of the language would benefit from further reading, the author has clearly taken the time to revise the text. The author could improve the figures by adjusting the labels' size; appendix tables 4 and 5 seem to be of lower quality than the previous tables.

Summary and suggested questions for the discussion during the defense

In summary, Tomáš has done a great job writing his thesis. He has shown a good knowledge of the existing literature, makes a clear empirical contribution to the field, and has taken the time to carefully structure and write his thesis. The results of the Urkund analysis do not indicate significant text similarity with other available sources. I believe the thesis fulfils the requirements for a bachelor thesis at IES. Therefore, I recommend the thesis for the defense and suggest a grade A.

Regarding questions to be asked during the defense, I would like to hear the author's thoughts on which data he would ultimately like to see published to answer his research question better as the current estimates suffer from several drawbacks. Also, what does the author think of the effects of tax competition? What does he think would be the most viable proposals for change, among the ones currently being discussed?

Report on Bachelor / Master Thesis

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

Student:	Tomáš Boukal
Advisor:	doc. Petr Janský, Ph.D.
Title of the thesis:	How Much in Taxes Do Multinational Enterprises Pay?

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	27
<i>Methods</i> (max. 30 points)	27
<i>Literature</i> (max. 20 points)	20
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	93
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: *Mgr. Tereza Palanská, M.A.*

DATE OF EVALUATION: *January 18, 2021*

*Digitally signed (18.1.2021):
Tereza Palanská*

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.*

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.*

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

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.*

Overall grading:

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